Dangling by a thread: how sharp are the Chinese scissors?

Other

DANGLING BY A THREAD: HOW SHARP ARE THE CHINESE SCISSORS?

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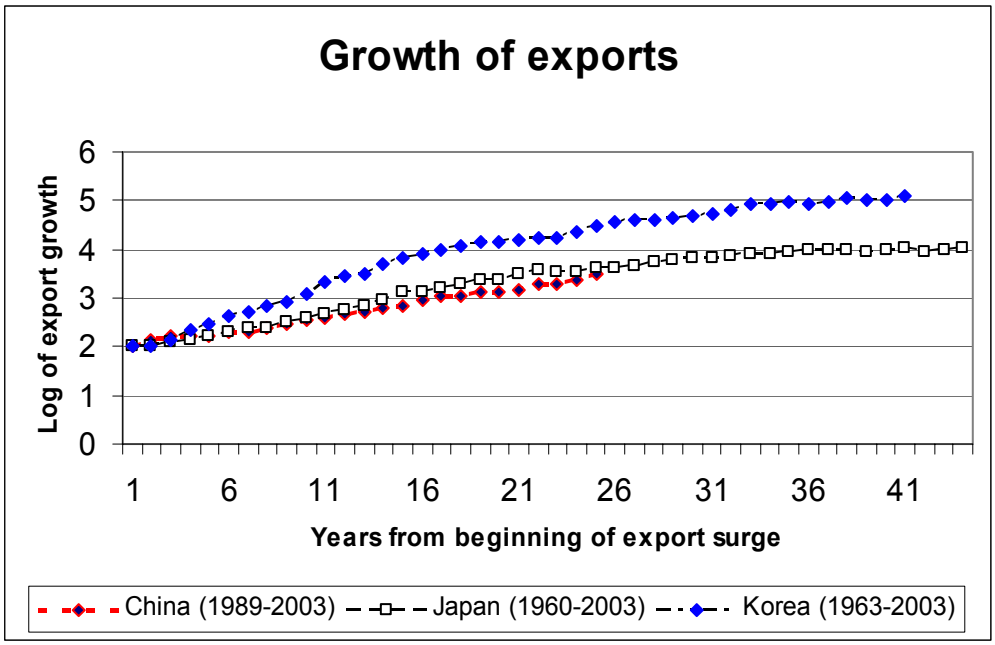
PART 1

1.1. BACKGROUND AND EXECUTIVE SUMMARY

China's growth spurt began in the late 1970s. But it was only in second half of the 1990s that its impact on the global economy began to be felt. China's export-drive was not unique by East Asian standards (Figure 1.1). However, its size (China has more than 20 percent of the global population) means that it is having a very significant impact on many other economies, including on low income economies in SSA. Its economy has grown at a compound rate of more than nine percent p.a. since 1979 and if this is sustained, it will be second in size to the US by 2018. Its trade impact is especially important, since its trade-GDP ratio is 70 percent (relatively high by comparison with other developing countries). In 2004, China was the world's third largest exporter, accounting for around 10 percent of the world's exports. The Organisation for Economic Development (OECD) estimates that China will be the leading global exporter by 2010

Figure 1.1. Chinas comparative performance, from base year of export surge



Source: Calculated from World Bank World Development Indicators, 2005.

China's impact on the global economy can be transmitted via a number of channels – through trade, through investment flows, through financial flows, through environmental spillovers, through policies adopted by international organisations and through geo-political developments (IDS, 2006). Its impact can be both direct (for example, China's imports from a specific country) and indirect (for example, China's exports to third-country markets affecting global supply and demand, and hence the prices for the imports and exports of a specific country). Its relationship with other economies can also be complementary (for example, inflows of Chinese FDI) or competitive (for example, competing in global markets for export-oriented FDI).

From the perspective of SSA in the early 21st Century, it is through the trade conduit that the impacts are most likely to be felt. Here it is possible to distinguish a number of potential trade-related effects, direct and indirect and complementary and competitive:

- China's imports of commodities either directly fuels export growth (for example, South Africa's exports of commodities such as steam coal to China) or indirectly raises the price of commodities in global markets (for example, China's demand for oil raises energy prices in global markets and Nigeria gains from higher oil revenues, even though its exports to China are small)

- China's direct imports of intermediate manufactures from SSA promotes manufacturing in SSA (as is the case in its trade with East Asia where China runs a trade deficit in manufactures, importing intermediates which are subsequently incorporated into final products which are then exported)

- China's exports to SSA provide cheap and appropriate products to enhance consumer welfare and to boost productive efficiency.

- China's exports to global markets lead to a fall in global prices, undermining the profitability of SSA exporters.

This Report addresses the impact of China on SSA by focusing on the trade channel in general, and the final bullet point in the preceding paragraph in particular. That is, *it examines the indirect and competitive impact on SSA of China's participation in third-country export markets*. It is of course only part of the story for SSA, and there are many respects where China's impact is likely to be both more direct, and where it is likely to be complementary rather than competitive (IDS, 2006; Chen et. al., 2005).

Following discussion with DFID in the spring of 2005, it was decided to focus on two sectors – garden furniture and particularly clothing and textiles. These are labour-intensive and resource based sectors which individual DFID country offices considered to be of importance to current and future growth and employment in SSA, and hence to poverty alleviation. These sectoral studies were to be seen as exploratory, defining an agenda for future policy-related enquiry.

> "*The objective of this project is to assess the impact of the two major Asian Driver economies (China and India) on SSA manufacturing by focusing on two leading sectors in three African sub-regions [Southern, East and West Africa]…*
>
> *The distinctive feature of this research is its focus on sectoral dynamics, that is, the forces determining the future of African producers in each of these sectors. The modesty of funding rules out a full survey of producers in many SSA countries. However the project will determine how significant the role played by the Asian Drivers on SSA economies is likely to be, and will establish a methodology for extended investigation in the future, in these and other potentially affected sectors"*.

The major part of this study focuses on the clothing and textiles sector. Although individual DFID country offices had felt that furniture exports were a source of concern, the level of actual and projected furniture exports from these three sub-regions has been small. This is not to say that there are not China-related impacts in the furniture sector (see Part 3 below), but rather that they pale into insignificance when compared to the clothing and textile sectors, particularly in Southern and East Africa. An additional reason for placing particular emphasis on the clothing and textile sector was the expiry of the MFA quotas on the 1st January 2005.

There are two distinctive features of this Report. First, although there have been many attempts to model and predict the impact of quota removal on SSA clothing and textile exports, to the best of our knowledge there has as yet been no inter-country comparison of actual impacts following the removal of quotas. And, second, and again to the best of our knowledge, with the exception of a study some years ago on the European retail clothing market (Gibbon, 2003), there has been no attempt to assess the future of the SSA clothing, textiles and furniture sectors by examining what buyers think. This is particularly true for US buyers, an important issue as the US is the overwhelming destination of SSA clothing and textile exports. Moreover, since an increasing number of global sectoral value chains either are already, or are becoming buyer-driven chains (that is, the key decisions affecting global production are made by chain-buyers rather than chain-producers), this has been a particularly important omission limiting the policy-contribution of previous studies on SSA exports of manufactures.

1.2. SUMMARY OF MAJOR FINDINGS: CLOTHING AND TEXTILES

SSA clothing and textile exports have grown rapidly and the USA has become the primary export destination (Box 1.1)

With the exception of South Africa, clothing and textiles have become a leading export sector for these economies. In Lesotho, clothing and textiles accounted for virtually all manufactured exports in 2002, and contributed 50 percent of GDP. In Kenya in 2003, clothing enterprises accounted for the equivalent of nearly 20 percent of all formal sector manufacturing employment.

Box 1.1. Share of US in exports of key SSA clothing exporters.*

Supplier	Year	Exports ($ '000):		
		World	*USA*	*US share*
Kenya	2000	51,527	46,701	90.6%
	2004	305,448	295,520	96.7%
Lesotho	2000	154,192	146,364	94.9%
	2004	494,155	481,787	97.5%
Madagascar	2000	610,683	115,377	18.9%
	2004	559,501	345,728	61.8%
Swaziland	2000	37,712	33,356	88.4%
	2004	190,537	188,467	98.9%
South Africa	2000	453,153	150,313	33.2%
	2004	252,453	149,402	59.2%

* Mauritius in a major SSA exporter but is excluded from this table as it is not part of this study.

The key driver for these growing clothing and textile exports has been trade preferences in general and the US AGOA preference scheme in particular (Box 1.2). However, within AGOA, there has been a key derogation on the rules of origin which allows SSA exporters to import inputs from outside of the AGOA region or the US. Mauritius and South Africa, which do not qualify as least developed countries, do not qualify for this derogation.[1]

This derogation was initially limited to September 2004, and was extended to September 2007. Its intent was to encourage backward integration into the textile sector.

The only significant case of the development of a textile industry has been the construction of a $100m denim plant in Lesotho, coming on stream in mid-2004.

Box 1.2. The major provisions of tariff preferences into the USA

The GSP provision provides duty-free access into the USA for imports from least developed economies. However, it excludes clothing and textiles, where tariffs are between 15-32 percent.

AGOA was introduced in 2001, providing similar levels of preferential access to the US for qualifying SSA economies. Unlike GSP, it covered clothing and textiles.

However, with the partial exceptions of S Africa and Mauritius, no SSA clothing exporters were able to meet the initial AGOA rules of origin.

Therefore the AGOA rules of origin were amended to allow least developed SSA economies to use materials imported from global least-cost suppliers. This derogation was time-bound, initially to September 2005, and subsequently to September 2007

However, trade preferences are not unique to SSA, and for much of the second half of the twentieth century the global clothing and textile industry has been dominated by complex systems of trade preferences, particularly the MFA (formally known as the Agreement on Textiles and clothing). The key element of the MFA is that it provided for quantitative restrictions on imports into major high-income economy markets. These quotas alone explain the establishment of an export-oriented clothing industry in low-income SSA economies, as predominantly East Asian producers took advantage of SSA's unused quota access into the US and the EU. However, these quotas were removed in January 2005.

The predicted consequences of MFA quota-removal on SSA (and Latin America and the Caribbean) were alarming. Almost without exception, it was believed that SSA would be unable to compete on prices, despite access to US tariff preferences. The industry would be decimated, in a very short period of time, and the primary beneficiary would be China.

Comparing 2005 and 2004 exports, the outcome has not been quite as bad as expected (Box 1.3). Overall AGOA exports fell by 17 percent, Lesotho's and Madagascar's exports each fell by 14 percent, Swaziland's by 10 percent and

[1] However, Mauritius was provided with this derogation for a one-year period in late 2004-2005.

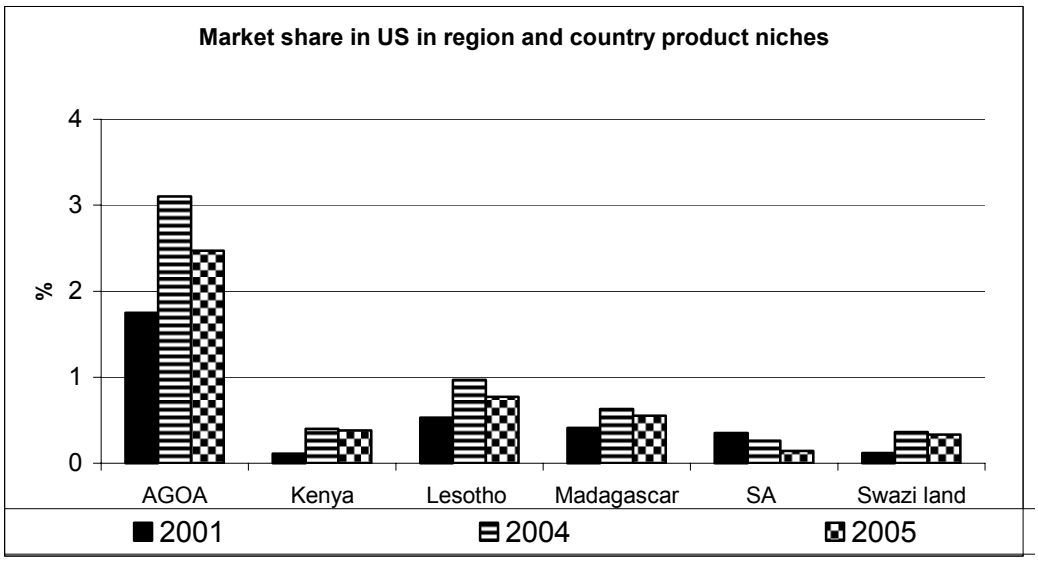
Kenya's by three percent. The major casualty of quota removal was South Africa, whose AGOA exports collapsed, virtually halving. By contrast, comparing similar product groupings, China's exports to the US increased very rapidly during the same time period. This meant that whilst AGOA clothing and textile export growth had led to a growth in the share of SSA exporters in US markets in their areas of market-niche between 2001 and 2004, this turned around during 2005, and their market shares began to decline (Box 1.4).

Box 1.3. SSA export performance following quota removal (2004 versus 2005)

% Change in Exports

	SSA export value	China exports in equivalent product groups
AGOA	-17	58
Lesotho	-17	112
Madagascar	-14	76
S. Africa	- 45	65
Swaziland	-10	91
Kenya	-3	77

Box 1.4.



Nevertheless, although with the exception of S Africa, the export performance was not as bad as had been anticipated, firm-mortality and employment loss were much more severe and indeed did border on the catastrophic for some of these economies, particularly Lesotho and Swaziland (Box 1.5).

Box 1.5. Employment decline in clothing sector, 2004-2005.

	2004	2005	% decline
Kenya	34,614	31,745	9.3
Lesotho	50,217	35,678	28.9
S Africa	98,000	86,000	12.2
Swaziland	32,000	14,000	56.2

The main reason why the overall export performance was not as bad as expected relates to the degree of effective subsidy offered to AGOA producers in the US. Nominal rates of tariff on AGOA exports range between 16 and 32 percent. However, with the exception of S Africa (and Mauritius, except for a one-year exemption in 2004-5) AGOA clothing products (which attract duties on their full nominal value) can incorporate duty-free imports of materials (which often make up 60 percent or more of costs). Therefore, the implicit “effective rate of subsidy” is substantially higher than the nominal rates of protection would suggest. We calculate these nominal rates as ranging between 27 and 84 percent for representative exported products.

This rate of subsidy is required for AGOA clothing producers to compete in the US market. This is because scales are low in SSA plants, and many producers suffer from poor bureaucratic and physical infrastructure. But there is also pervasive evidence that many SSA clothing plants suffer from low levels of productivity arising out of poor organisational procedures, low levels of skill and inadequate management within plants.

The impact of these developments on poverty and livelihoods is very substantial. Some of this is positive, insofar as reduced prices of imports enhance the consumption power of consumers. But the negative impacts are very large, and focused, and hence command attention, because there are so few backward linkages into textiles, the major conduit for income-dispersal in the clothing industry has been through direct employment. The scale of job-losses arising from the end of MFA quotas is alarming (Box 1.5). It is not just the degree of job loss (particularly in Lesotho and Swaziland) which is of concern, but the nature of the jobs which have gone. It mostly involves women, and the impact on their families is severe. (In S Africa, for example, it is estimated that approximately four people are supported for every job in the formal sector). For countries without alternative sources of employment, this employment-decline has major poverty implications. But we also know from global experience that rapid economic growth can be a significant factor in reducing poverty levels, and the loss to both GDP and exports arising from a sharp contraction of the clothing sector will have a further negative impact on poverty levels.

Another and potentially important poverty related outcome is the consequences for income distribution as SSA economies restructure to meet the threats and opportunities posed by China. The threat surfaces in the loss of labour intensive industries both though a decline in exports and heightened competition in domestic markets. The opportunity arises in the expansion of the mineral sector. Unlike labour intensive industries, minerals production is very capital intensive

and ownership is heavily concentrated. Hence, both because of its impact on poverty levels (through employment) and on income distribution (through changing forms of economic specialisation), China's poverty-related impact on SSA is likely to be significant.

In conclusion, what future is there for AGOA clothing producers?

- Without the continued derogation on imported inputs, little of AGOA's current export-oriented clothing industry will survive. The severity of the impact on South Africa (which cannot use imported materials) and which has experienced not only a 45 percent fall in export values during 2005, but rapidly rising import penetration, is clear evidence of this danger.

- Those countries linked to the Rand – where currency appreciation in part reflects booming commodity exports to China – have suffered adversely. For Lesotho and Swaziland these Dutch Disease effects are particularly damaging since they do not simultaneously benefit from the upside of this growth in the commodity-exporting sector.

- There is scope for reducing costs at the plant level. This will require a structured programme of benchmarking and continuous improvement. There is also scope for reducing the costs of poor bureaucratic and physical infrastructure.

- There are many pockets of expertise in the region, including in good government. But the lessons from these isolated areas of competence will not diffuse naturally and require policy support.

1.3. SUMMARY OF MAJOR FINDINGS: FURNITURE

Relatively-speaking, SSA's clothing industry is characterised by achievement. Although the share of global markets is small (3.7 percent in 2004), until 2005 this share had been growing and was diffused through six countries. By contrast, SSA's share of global furniture trade is not just much lower (less than one percent), but it has been falling and is effectively limited to a single country (South Africa). This is despite the fact that SSA has better resource endowments for furniture than it does for clothing and textiles. The primary reasons for this are the absence of the high levels of effective subsidy in final markets which applies to clothing and textiles, and underdeveloped manufacturing capabilities.

SSA furniture producers are subject to the same competitive pressures from China and other Asian countries as are the clothing manufactures, but to more devastating effect.[2] Europe's major importer of garden furniture has ceased sourcing from SSA, and will draw all of its incremental imports from Vietnam and China rather than from Ghana from which has now divested its equity in a joint venture with a local partner. There is a single reason for this – SSA is not price competitive (Box 1.6)

[2] In fact the major exporters of furniture include a number of European countries. However, the major competitors for the furniture products exported by SSA are in Asia.

Box 1.6. Comparative costs of same item of garden furniture from SSA and Asia

	Average price	Price index
Ghana	£50	100%
South Africa	£60	120%
China	£30	60%
Vietnam	£38	76%

By contrast, China's furniture industry has been booming. Between 1993 and 2002 it has moved from being the world's eighth largest to the second largest exporter. Between 1995 and 2002, its furniture production grew at an annual rate of 25 percent, and exports at 21 percent. Imports by comparison were static. Like the clothing and textiles sectors, this global expansion occurred during a period of falling world prices.

SSA producers have thus either retreated from, or are largely in the process of retreating from global markets. In the case of South Africa, the hope is to target the domestic market. In the case of Ghana, the intention is to target the regional market. However both South African and Ghanaian manufacturers report high levels of competition in their domestic market from China and other Asian economies (such as Vietnam), and it is questionable whether this inward-oriented strategy will be as successful as hoped.

In the face of this inability to compete with Asia in general and China in particular, SSA's furniture manufacturers are moving backwards into their resource sectors, exporting raw logs, chips for the paper industry and sawn timber. Ghana is making an attempt to resist further "backward movement" by banning the export of logs. There is also probably a significant trade in illegally-logged hardwoods from West and Central Africa to Asia, but this is by its nature very difficult to evidence. Much of this SSA-sourced timber is used by Asian manufacturers to produce furniture which displaces SSA from global furniture markets. There are even allegations that it is used to produce furniture which is then exported back to SSA exporters of wood.

In the clothing and textile sectors the poverty impact of Chinese competition is clear, with large job losses in existing enterprises in a number of SSA countries. In furniture this is less evident, since the industry is one with potential rather than realised presence. The exception is South Africa. Here, the industry has begun to shed labour and employment fell by around 10 percent in 2004. Hence the link to poverty and livelihoods is one of missed opportunity. Furniture is a labour intensive sector; it has significant backward linkages to agriculture and other sectors. It has the capacity to contribute significantly to growth and exports, and hence to reduce economy-wide poverty. Yet, it has failed to achieve this potential, and whilst competition from China explains only a small part of this historic picture, it makes it that much more difficult for SSA to achieve progress in the future. For the industry's potential to be achieved will require a concerted programme to improve value chain efficiency (requiring attention to forestry,

sawmills, design, production and marketing) and perhaps also increased levels of protection in access to final consuming major markets

1.4 GENERAL CONCLUSIONS

Considering the two sectors together, six general conclusions can be drawn:

1. China's economic expansion has significant implications for SSA industry and growth. Indirectly, it excludes outward-oriented SSA producers from global markets, and directly it squeezes locally-focused producers.

2. This has severe implications for both poverty and income distribution, particularly for changing patterns of income. Whilst domestic consumers gain from lower-priced imports, employment loss is severe and concentrated, the ability to "grow" future labour intensive industries has been diminished, and for those economies with a commodities sector, income will probably become increasingly concentrated. For those economies without a commodities sector, there are limited alternative sources of foreign exchange generation.

3. At existing exchange rates and with existing cost structures SSA exporters of manufacturers will find it very difficult to compete without high degrees of preferences in external markets. The major from of preference affecting AGOA clothing exporters is the derogation on material inputs, but this is due to expire in September 2007.

4. There is scope for significant improvements in operating efficiency in both sectors, but this will require attention to firm-level efficiency, systemic value chain integration, and bureaucratic and physical infrastructure.

5. We do not know the extent of Dutch Disease impacts, but these look severe, especially through their indirect impacts on economies linked to currencies of commodity exporting economies. This not only has implications for exports from non-commodity sectors, but the distributional and political fallout from commodity specialisation is likely to be significant.

6. We have observed the impact of China on SSA at a nascent stage of China's expansion and only in relation to the vector of trade. Even then we can see non-marginal impacts. As China's expansion continues and when other vectors are considered (FDI, governance, the environment), we can anticipate even greater impacts.

These conclusions have important implications for a poverty-focused policy agenda, both by DFID and by individual and groups of SSA economies. However, before policies are adopted, further detailed enquiry will be required, bearing in mind that this has only been a pilot investigation. For example, we do not know whether the relatively small drop in SSA's clothing exports represents poor trade data, or transfer pricing by Asian investors in Southern Africa. We do not know why exporters of similar products have reduced exports from Kenya and raised them from Madagascar in some products and made diametrically opposed decisions in regard to other products. We do not know whether polling the Asian

based buyers will provide a different picture from the relatively optimistic scenario painted by US buyers. Perhaps most importantly insofar as SSA as a whole is concerned, we do not know whether the changes in manufactures/commodities terms of trade which we are witnessing are likely to be sustained, how they are felt in individual SSA economies, and how their effects are being transmitted from core regional economies to their partner countries.

PART 2

MFA QUOTA REMOVAL AND THE IMPACT ON SOUTHERN AND EAST AFRICAN CLOTHING AND TEXTILES EXPORTERS TO THE USA

2.1. BACKGROUND

Why are clothing and textiles important?

In 2004, a US International Trade Commission enquiry into competitiveness in the global textiles and clothing industry provided a comprehensive overview of emerging trends based in part on a series of country case-studies conducted by industry experts. It concluded that China is "expected to become the 'supplier of choice' for most U.S. importers (the large apparel companies and retailers) because of its ability to make almost any type of textile and apparel product at any quality level at a competitive price". The ITC concluded that China's low unit labour costs were due to a combination of low wages and high productivity. As for quality, it is "considered by industry [to be] among the best in making most garments and made-up textile articles at any quality or price level". (USITC, 2004: x1 and xiii). Lead times, too, were relatively low.

If accurate, this will represent a major challenge for SSA clothing and textile exporters. Unfortunately, the quality of data on SSA manufacturing value added and trade is not adequate to permit a data-driven, detailed and recent assessment of the clothing and textile sector in SSA economies.[3] But it is a sector of considerable economic importance, and because of its labour intensity, a sector having a major impact on poverty patterns, sustainable livelihoods and income distribution.

One indicator of the sector's regional importance is that although clothing and textiles exports declined between 2003 (the peak year) and 2004, they still accounted for 4.7 percent of total SSA merchandise exports, and 18.7 percent of total SSA manufactured exports in 2004 (WTO, 2005). (Most of these exports, 4.1 percent and 16.4 percent respectively, were clothing). SSA clothing and textile exports were heavily concentrated in a few economies (see below), and in some of these, their strategic significance is very important, with major implications for growth and poverty reduction. For example, in Lesotho, clothing and textiles accounted for 99 percent of all exports and 50 percent of GDP in 2002, and in Kenya in 2003, employment in export processing zone export-orienting clothing enterprises accounted for the equivalent of nearly 20 percent of all formal sector manufacturing employment outside of the EPZs (Kaplinsky, 2004).

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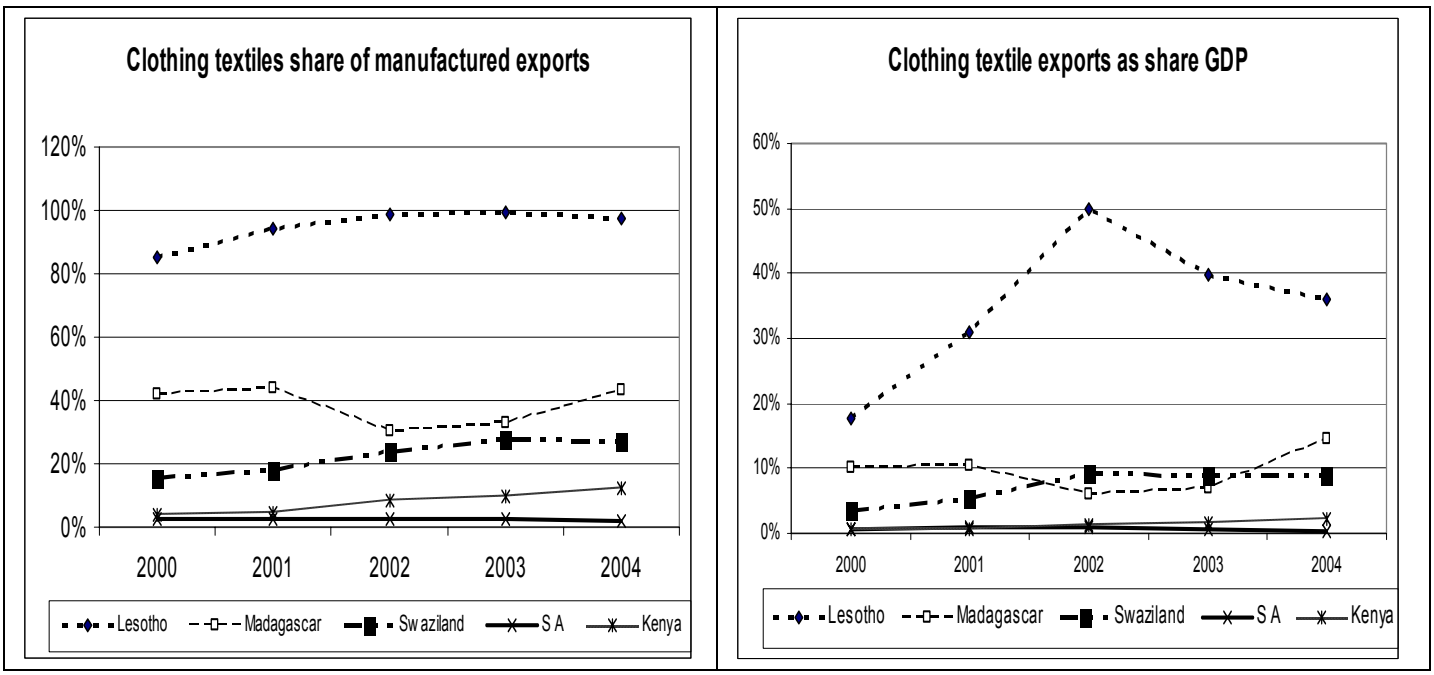
[3] The UNIDO database on global manufacturing does not provide data beyond 1998. The WTO Annual Report on trade flows and the IMF Direction of Trade Statistics do not provide data on sectoral disaggregation.

Figure 2.1 The significance of clothing and textile exports in five major SSA exporting economies



Therefore, in the light of the strategic significance of clothing and textiles in SSA, of China's competitiveness, and because of the removal of the remaining MFA quotas in January 2005, the potential impact of China on SSA GDP growth, exports, manufacturing value added and employment in selected SSA economies cannot be underestimated. In assessing this impact we begin with a brief review of the changing structure of trade in this sector in the global economy.

The global clothing and textiles sector

China is substantially the world's largest exporter, successfully increasing the value of its clothing exports by 540% from $9.7 billion in 1990 to $62.0 billion in 2004 (Table 2.1). In 1990, China represented only 9% of the world's total clothing exports, but by 2004, its share had increased to 24%, and if Hong Kong with 10% of the world total is included, China effectively accounted for one third of world clothing exports. Although Italy grew clothing exports by 51% (1990 – 2004), its share of world exports declined from 11% (1990) to only 7% (2003), and its 2004 exports of $17.9 million is less than one third China's exports. Mexico and India are the only other countries among the top 10 exporters to increase their world share. Mexico increased its clothing exports from $0.6 billion in 1990 to $7.2 billion in 2004 (an increase of 1,126%), in the process growing its share of the world total from 1% to 3%. India's clothing exports grew by 162% (from $2.5 billion to $6.6 billion) between 1990 and 2004, at the same time increasing its share of world total exports from 2% to 3%. Although the US increased its clothing exports by 97% to $5.05 billion in 2004, the US's share of total world exports remained constant at 2%. SSA is only a small participant on this global stage. Its share of global textile exports was only 2.6 percent in 2004, and 3.7 percent for clothing (WTO, 2005).

Developed countries dominate the global importation of clothing, with the US importing the greatest value of clothing products. Between 1990 and 2004, imports of clothing goods into the US grew by 181%, increasing its share of world imports from 24% to 28%. Germany is the second largest importer of clothing goods, followed by Japan, the UK and Hong Kong. In 2004, the US imported $75.7 billion worth of clothing; three times the amount imported by Germany ($24.1 billion); nearly quadruple the value of Japan and UK's clothing imports ($21.7 billion and $19.2 billion). In 2004, the $140.7 billion imported by the top four clothing importers represented more than 50% of the world's total clothing imports, whilst the top 10 clothing importers accounted for 77% of the value of world imports.

Table 2.1: World trade in clothing by top 10 countries (US$ million)

Exports Clothing										1990-2004 % change	% World Total	
Country	1980	1985	1990	1995	2000	2001	2002	2003	2004		1990	2004
China	1,625	2,450	9,669	24,049	36,071	36,650	41,302	52,061	61,856	540%	9%	24%
Hong Kong	4,976	6,718	15,406	21,297	24,214	23,446	22,343	23,152	25,097	63%	14%	10%
Italy	4,584	5,320	11,839	14,424	13,384	14,220	14,643	16,191	17,925	51%	11%	7%
Germany	2,882		7,882	7,530	7,320	7,444	8,338	9,749	11,221	42%	7%	4%
Turkey	131	1,208	3,331	6,119	6,533	6,661	8,057	9,937	11,193	236%	3%	4%
France	2,294	1,935	4,671	5,659	5,414	5,469	5,882	6,935	7,865	68%	4%	3%
Mexico	2		587	2,731	8,631	8,012	7,751	7,343	7,197	1126%	1%	3%
India	673	930	2,530	4,110	6,179	5,484	6,037	6,459	6,620	162%	2%	3%
Belgium					3,941	4,206	4,649	5,353	6,235		0%	2%
USA	1,263	785	2,565	6,651	8,629	7,012	6,032	5,537	5,059	97%	2%	2%
World	**40,590**		**108,129**	**158,353**	**197,498**	**194,490**	**202,310**	**225,940**	**258,097**	**139%**	**100%**	**100%**
Imports Clothing												
USA	6,943	16,202	26,977	41,367	67,115	66,391	66,731	71,277	75,731	181%	24%	28%
Germany	8,326		20,411	24,550	20,183	19,330	19,647	22,219	24,076	18%	18%	9%
Japan	1,537	2,012	8,737	18,758	19,709	19,186	17,602	19,485	21,687	148%	8%	8%
UK	2,858	2,694	6,961	8,002	12,995	13,169	14,657	16,551	19,245	176%	6%	7%
Hong Kong	695	1,671	6,913	12,654	16,008	16,098	15,640	15,946	17,129	148%	6%	6%
France	2,637	2,707	8,381	10,639	11,412	11,769	12,402	14,771	16,791	100%	7%	6%
Italy	797	779	2,580	4,703	6,139	6,697	7,576	9,342	11,130	331%	2%	4%
Spain	152	121	1,649	2,492	3,847	4,279	4,965	6,559	7,732	369%	1%	3%
Belgium					4,828	5,013	5,272	6,249	7,156	0%	0%	3%
Netherlands	2,875	2,045	4,768	5,132	5,371	5,220	5,250	5,943	6,644	39%	4%	2%
World	**42,271**	**50,822**	**112,236**	**162,871**	**207,093**	**203,820**	**211,765**	**236,035**	**269,473**	**140%**	**100%**	**100%**

Source: Morris, Barnes and Esselaar (2006, forthcoming)

The textiles sector is far more capital-intensive than clothing, with long lead times, resulting in large minimum order-quantities and less flexibility (Nordas, 2004). Textiles firms in industrialised economies are therefore increasingly producing household and industrial textiles which are more technology- and R&D-intensive. This, coupled with the capital-intensity of textiles production has meant that it has been more difficult to relocate textiles production to developing economies, and most of the relocation that has taken place has been concentrated in the areas of clothing fabric (Nordas, 2004).

With 17% of the world total, China was the world's largest exporter of textiles products. Chinese exports of textiles increased from $7.2 billion in 1990 to $33.4 billion in 2004 (or by 363%), while its share of the world total more than doubled. Italy was the second largest exporter of textile products valued at $15.2 billion in 2004 representing 8% of world exports. Hong Kong accounts for approximately 7% of total textile exports, exporting $14.3 billion in 2004, followed by Germany with $13.6 billion and the US with $12 billion, representing 7% and 6% of the world total respectively.

The importation of textiles shows less significant concentration among the top 10 countries than the importation of clothing, highlighting the more

differentiated markets that the textiles industry supplies into (Table 2.2). The top five importers of textiles: US, China, Hong Kong, Germany and France, import 35% of the world total, while the top 10 importers (including the UK, Italy, Mexico, Japan and Spain) import just over half of the world total. The US is the leader in textiles imports with its imports increasing from $6.7 billion in 1990 to $18.3 billion in 2004, an increase of 207%. China's imports of textiles increased by 189% over the period, from $5.3 billion to $15.3 billion, whilst Hong Kong's textile imports increased by 39% (from $10.8 billion to 14.1 billion). Germany experienced a decline in textile imports of 5%, and France remained constant, revealing the loss of their clothing industries and their movement towards importing made-up garments.

Table 2.2: World trade in textiles by top 10 countries (US$ million)

Exports Textiles												
Country	1980	1985	1990	1995	2000	2001	2002	2003	2004	1990-2004 % change	1990	2004
China	2,540	3,680	7,219	13,918	16,135	16,826	20,563	26,901	33,428	363%	7%	17%
Italy	4,158	4,727	9,492	12,877	12,040	12,165	12,131	13,569	15,199	60%	9%	8%
Hong Kong	1,771	3,038	8,213	13,815	13,442	12,214	12,374	13,085	14,296	74%	8%	7%
Germany	6,296		14,033	14,385	10,851	10,547	10,873	12,014	13,582	-3%	13%	7%
USA	3,757	2,541	5,039	7,372	10,961	10,491	10,698	10,917	11,989	138%	5%	6%
S. Korea	2,209	2,534	6,076	12,313	12,711	10,941	10,713	10,122	10,839	78%	6%	6%
Taipei	1,771	2,490	6,128	11,882	11,896	9,905	9,532	9,321	10,038	64%	6%	5%
Belgium					6,311	6,079	6,244	6,960	7,670		0%	4%
France	3,432	2,885	6,058	7,474	6,664	6,278	6,389	7,078	7,356	21%	6%	4%
India	1,306	1,054	2,180	4,358	5,998	5,375	6,028	6,510	No Data		2%	
World	**54,990**		**104,354**	**152,319**	**154,366**	**146,866**	**152,758**	**169,422**	**194,732**	**87%**	**100%**	**100%**
Imports Textiles												
USA	2,543	4,978	6,730	10,441	16,008	15,429	17,002	18,289	20,662	207%	6%	10%
China	1,100	2,040	5,292	10,914	12,832	12,573	13,060	14,218	15,304	189%	5%	7%
Hong Kong	2,967	4,281	10,182	16,859	13,717	12,177	12,019	12,929	14,110	39%	9%	7%
Germany	6,871		11,868	12,477	10,007	9,528	9,244	10,292	11,259	-5%	11%	5%
UK	3,560	3,869	7,018	7,262	6,889	6,452	6,489	6,894	7,804	11%	7%	4%
France	4,119	3,484	7,595	7,526	6,751	6,336	6,236	7,001	7,641	1%	7%	4%
Italy	2,618	2,524	6,133	6,461	6,210	6,067	6,077	6,733	7,459	22%	6%	4%
Mexico	133		992	1,768	5,824	5,385	5,573	5,461	5,790	484%	1%	3%
Japan	1,663	1,901	4,106	5,985	4,939	4,756	4,536	5,035	5,599	36%	4%	3%
Spain	354	314	2,050	2,647	3,359	3,302	3,460	4,137	4,301	110%	2%	2%
World	**56,975**	**55,618**	**107,839**	**156,515**	**163,121**	**155,718**	**161,015**	**179,011**	**205,884**	**91%**	**100%**	**100%**

Source: Morris, Barnes and Esselaar (2006, forthcoming)

SSA is only a small participant on this global stage. Its share of global textile exports was only 2.6 percent in 2004, and 3.7 percent for clothing (WTO, 2005). Most of these clothing and textile exports are destined for the USA and here in order of importance, the largest SSA clothing and textile exporters are Lesotho, Madagascar, Kenya, Mauritius, Swaziland and South Africa (see Table 2.5 below)

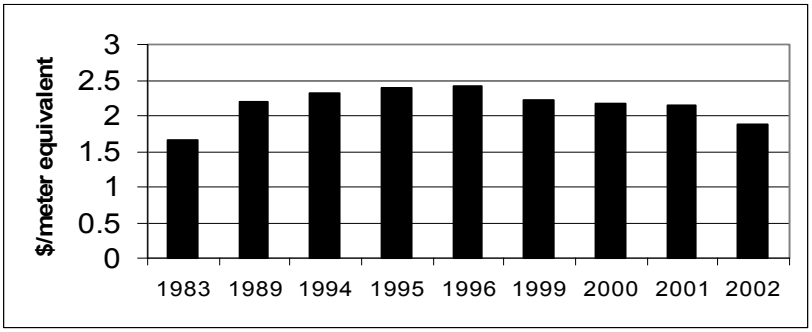
Preferential trading regimes and AGOA

This structure of the global clothing and textiles sector reflects three major factors. The first is the concentration of global buying power. This is an increasingly widespread phenomenon, spanning most final products sectors (Feenstra and Hamilton, 2005). In the USA, between 1987 and 1991 the five largest chains increased their share of retail clothing sales from 35 to 45 percent; by 1995 this had increased to 68 percent, and a further 24 chains controlled 30 percent of the market. In other words, something like 30 giant retail chains supply virtually all of the US clothing market. Wal-Mart and Kmart have become particularly dominant and, alone, account for 25 percent (by volume) of all sales. In Germany in 1992, five retailers (C&A, Quelle, Metro/Kaufhof, Kardstadt and Otto) accounted for 28 percent of the clothing market. In the UK, the top five retailers had 32 percent of the market in 2000, and the top 10 retailers had 42 percent. In both France and Italy, independent retailers declined in importance after the mid-1980s, and specialised chains, franchise networks and hypermarkets grew rapidly. In Japan, the dominant role of high-fashion department stores such as Seibu and Isetan has been undermined by specialised clothing retailers competing with lower-cost imported products (Gereffi and Memedovic, 2004; Kaplinsky, 2005; and Malone 2002 and McGrath, 2003, both cited in Appelbaum, 2005)).

The significance of this buyer concentration is their requirement for large volumes (and of course low prices). This has made it difficult for small scale suppliers to meet the requirements of large global buyers, and this has advantaged countries such as China with large volume plants, and transnational companies (often based in Hong Kong and Taiwan) who have a competitive advantage in organising large scale production runs.

The second major explanation for the structure of global production has been costs and efficiency. Although the clothing industry has become increasingly characterised by the requirement for shorter lead-times, greater inter- and intra seasonal variety and tighter logistics (ITC, 2004; Kaplinsky, 2005), cost has been king in this industry. The intensity of competition in these areas has been reflected in cost pressures, and as Figure 2.2 shows, since the mid-1990s there has been a secular downtrend in the unit price of imported clothing.

Figure 2.2: US Import prices for clothing and textiles, 19832002 ($/sq.m. equivalent)



Source: Manchester Trade Team (2005), from Textile Outlook International

The third and the most important determinant of global production structure has been the protective regime, since this has determined the pool of countries who can reliably serve these large scale global buyers with low cost and quality-assured product. Without going into too much detail, three protective regimes have been important, particularly in explaining SSA's role in this global industry. It is important to note here that it is the US protective regime which is most important to the SSA clothing and textiles industry, since the overwhelming share of exports are destined to the US market, particularly for Kenya, Lesotho and Swaziland (Table 2.3 provides the data for key SSA Eastern, and Southern African clothing and textile exporters; it excludes Mauritius, which is a major exporter to the EU).

Table 2.3. Share of US in exports of key SSA clothing exporters.*

Supplier	Year	Exports ($ '000):		
		World	*USA*	*US share*
Kenya	2000	51,527	46,701	90.6%
	2001	74,094	68,967	93.1%
	2002	139,607	135,180	96.8%
	2003	208,476	201,749	96.8%
	2004	305,448	295,520	96.7%
Lesotho	2000	154,192	146,364	94.9%
	2001	236,968	223,549	94.3%
	2002	347,957	342,432	98.4%
	2003	427,504	418,995	98.0%
	2004	494,155	481,787	97.5%
Madagascar	2000	610,683	115,377	18.9%
	2001	686,695	188,102	27.4%
	2002	237,440	96,706	40.7%
	2003	363,023	211,742	58.3%
	2004	559,501	345,728	61.8%
Swaziland	2000	37,712	33,356	88.4%
	2001	56,518	50,340	89.1%
	2002	102,219	95,352	93.3%
	2003	153,054	149,683	97.8%
	2004	190,537	188,467	98.9%
South Africa	2000	453,153	150,313	33.2%
	2001	456,433	183,713	40.2%
	2002	347,239	193,376	55.7%
	2003	415,233	248,532	59.9%
	2004	252,453	149,402	59.2%

* Mauritius in a major SSA exporter but is excluded form this table as it is not part of this study.

Source: UNSD COMTRADE database, accessed via World Integrated Trade Solution (WITS) on 15th December 2005; Country and sectoral data calculated on the basis of US imports

Historically, the most important preferential trade regime has been the Multi-Fibre Arrangement (MFA) (formally superseded by the Agreement on Textiles and Clothing in 1994, but still largely referred to as the MFA). For the last quarter of the 20th Century the MFA regulated much of global trade and production in this sector, ratifying countries' rights to impose quotas on textiles and clothing imports. This was intended to allow rich countries time to restructure their textiles

and clothing industries before opening up to competition from poorer country producers. Within this, each of the large importing blocs negotiated separate bilateral arrangements with developing countries to set up complex tariff schedules protecting the more capital-intensive parts of the chain, and reducing tariffs on labour-intensive stages in the production cycle. The aim was to allow their domestic producers to take advantage of outsourced cheap labour for the unskilled labour-intensive part of the production cycle.

This quota-based preferential trade access meant that production spread to an ever-increasing number of countries. This was largely because firms in quota-full economies organised garment production in under-utilised quota producer countries. Thus, during the 1990s, a rapid process of third party organising and supply sourcing functions spread throughout the developing world to provide access to established markets. Hong Kong garment producers opened factories in Mauritius and elsewhere, and Korean and Taiwanese producers spread their operations to the Caribbean and to sub-Saharan Africa. In turn, as they matured in their operations and established their own footholds, Mauritian garment producers also spread their operations to Madagascar. In more recent years, large Asian producers, especially in Hong Kong and Taiwan, developed the capacity to mobilise and coordinate full-package manufacture (i.e. all the manufacturing stages) in the global textile and clothing value chain, leading to what Gereffi (1999) termed "triangular production networks". In other words, production in one country (usually least developed) was organised and coordinated by firms in another (mostly middle-income) country, with products produced sold on to final buyers in yet a third (usually industrialised) economy.

On December 31 2004, the MFA came to an end and with it, the termination of all quotas on textiles and clothing trade between member states of the WTO. Although the phasing down of the quotas had been planned as a gradual process spanning five years, importing countries had been given latitude on what products they would remove from quotas. Most chose to remove items in the first few years of the phase-down which were of little significance in their imports. Thus the final step of quota removal came as a "big bang" on the 1st January 2005 - 86.5 percent of US quotas and 73.3 percent of EU quotas were involved (Williams, Yuk-Choi and Yan, 2002: 580).

However, the removal of quotas did not mean a "level playing field" since global trade in clothing and textiles is still regulated by tariffs. It is important to note here that the GSP preference scheme by which the US and 26 other developed countries provides duty-free tariff preferences to over 100 beneficiary countries notably excluded clothing and textiles. In the case of the US, in 2001 the average weighted tariff for clothing and textiles was 15.5 percent, but they ranged from around 13 to 17 percent for cotton products and from 25 to 35 percent for synthetic products.[4]

[4] Ad valorem tariffs only (UNCTAD, 2003: 15). There are two explanations for the higher tariffs on synthetic products despite the fact that this is the area of speciality for the US clothing and textiles industry. First, the US industry sees cheap synthetics as a cheap competitor to its cotton products. Second, synthetics were incorporated into the MFA at a later stage than cotton products, and the US industry which had been scarred by competition in cotton products, saw this as an opportunity to dampen potential future competition in synthetics. (We are grateful to Peter Minor for these observations).

The African Growth and Opportunity Act (AGOA) was signed into USA law on 18th May 2000, aiming to assist SSA by using trade as a means of generating revenue, investment and employment. The trade preferences provided by AGOA are contingent upon countries meeting certain criteria, including a range of provisions on democracy and anti-corruption, and property rights and trade liberalisation. A number of SSA countries have increased exports on the back of AGOA, including in the petroleum sector. The largest manufacturing sector beneficiary of AGOA has been the clothing and textiles sector, since the key relevant element of AGOA is that it extends the GSP preferences to clothing and textiles.

AGOA incorporated different rules of origin to the GSP. The GSP provisions require that articles must be shipped directly from the exporting country, and not go through processing in a third country. In addition, the value added to the product must be at least 35% – "Imported materials can be counted towards the value-added requirement only if they are 'substantially transformed' into new and different constituent materials of which the eligible article is composed."[5] However, because few SSA countries were able to meet these rules of origin, The AGOA rules of origin instead built on procedures which had been established early in the 1990s in relation to the Caribbean Basin Initiative:

- The cost or value of materials produced in the customs territory of the United States may be counted towards the 35 per cent requirement up to a maximum amount not to exceed 15 per cent of the article's appraised value.

- The cost or value of the materials used that are produced in one or more beneficiary sub-Saharan African countries may be counted towards the 35 per cent requirement (cumulation among AGOA-designated countries).

Nevertheless, despite these concessions, few SSA economies were able to meet these rules of origin in the clothing and textiles sector. Thus, in a further key amendment, AGOA-qualifying countries which were also classified under the UN's "least developed category" (that is, per capita incomes of less than $1,500 in 1998) were also subject to a further amendment to GSP rules of origin. That is, until September 2005 (subsequently amended to September 2007) they could source their material and accessory inputs from non-AGOA and non-US bases suppliers (up to a restricted share of US clothing imports), including from China and other Asian economies. In other words, they were freed from the minimum value added requirement. Table 2.4 summarises the key components of the AGOA rules of origin in the clothing sector.

[5] UNCTAD (2003: 8),

Table 2.4: Summary of Apparel Rules of Origin Under AGOA

Description of the Rules of Origin Requirement	Conditions of Access
Apparel assembled from US formed and cut fabrics from US yarn	Unrestricted
Apparel assembled and further processed from US formed and cut fabrics from US yarn	Unrestricted
Apparel assembled from US fabric from US yarn and thread	Unrestricted
Apparel assembled from regional fabric from US or African yarn	Tariff rate quota that grows from a cap of 1.5 to 3.5 % of total US apparel imports (these caps have recently been doubled)
Only applicable to Least Developed Category economies Apparel assembled in a lesser Developed Country using foreign fabric or yarn	Unrestricted for four years from 2001 (subsequently extended to September 2007) but exports counted against the 1.5 to 3.5 % caps specified above.
Cashmere sweaters, knit to shape	Unrestricted
Merino wool sweaters, knit to shape, with fibres 18.5 microns or finer	Unrestricted

Source: Elaboration of Mattoo, Roy and Subramanian (2002)

In 2004, the six largest exporters of clothing to the US under the AGOA scheme were Lesotho, Madagascar, Kenya, Mauritius, Swaziland and South Africa (Table 2.5). The critical issue is the relationship between total exports of clothing and those under AGOA qualifying rules from these countries (compare Tables 2.2 and 2.3). In 2004, the vast bulk (except for Mauritius South Africa, more than 90 percent) of SSA clothing exports to the US has been via AGOA's preferential trade access. The share of AGOA exports in all exports grew rapidly between 2001 and 2004 (particularly for Swaziland and Kenya), and this reflects two general tendencies. First, new investments (including plant-expansion) were made, directly targeting AGOA exports to the US. And, second, in some cases pre-existing plants exporting to the US were brought under the AGOA umbrella. The impact that this clothing based industrialisation process has had on creating wage employment and reducing poverty in these poor SSA countries has been huge (see below).

Table 2.5: AGOA clothing exports to US, 2001 – 2003 ($m)

Country	2001	2002	2003	2004
Lesotho	**129**	**318**	**373**	**448**
Madagascar	**92**	**75**	**186**	**315**
Kenya	**52**	**121**	**176**	**272**
Mauritius	**39**	**107**	**135**	**148**
Swaziland	**8**	**74**	**127**	**176**

South Africa	**30**	**85**	**127**	**115**

Source: For 2001 and 2002, Gibbon, 2003; For 2003 and 2004, http://dataweb.usitc.gov/ and www.tralac.org (Accessed March-October 2005, and Gibbon

2. 2. SSA IN THE POST QUOTA ERA; A BIRD'S EYE VIEW OF FIVE KEY EXPORTING ECONOMIES

The "big bang" of January 2005 was a very significant event. It allowed countries such as China, which had formerly been limited in accessing major markets by import quotas, to compete on price. As we have seen, this does still not constitute a "level playing field". Those countries such as the AGOA-qualifying economies and other groupings incorporated in preferential trading arrangements (for example, the Caribbean Basin Initiative economies and Mexico through NAFTA) continue to benefit from a remission of duties. But, crucially, it provided China with a platform to take advantage of the low production costs and higher overall efficiency noted by the USITC Report in 2004 (see Section 1 above). China prepared for quota removal with investments to improve efficiency. In 2002 China accounted for 75 percent of global shuttleless loom purchases, and in the process displaced 1m workers (USITC, 2004). This was reflected at the firm-level. For example, between 1998 and 2004 the Shanghai Shenda Group fired 50,000 workers out of a total labour force of 60,000 and closed 20 factories. In the same period, sales rose from $170m to $415m (Hilligas, 2004: 13).

It was not just China which geared itself for this change, but more importantly the global TNCs which had developed to serve the needs of the large scale buyers in the major clothing importing countries. Many of these clothing and textiles TNCs have their bases in Asia. In 2003, there were 20,000 FDI investments in China in clothing and textiles, and FDI inflows into this sector comprised 10 percent of overall incoming FDI into China. More than one-third of China's clothing and textile exports in 2004 were directly exported by TNCs (Appelbaum, 2005), but perhaps more importantly, externally-based global intermediary buyers (Gereffi's "triangular manufacturers" – see Section 3 below) coordinated much of the clothing and textiles exported directly by Chinese-owned companies.

Predictions

In anticipation of quota removal, there were a large number of attempts to predict the outcome. These predictions are summarised and annotated in Annex 1, and can be grouped into four categories – predictions on the poverty-impact in vulnerable countries; predictions on the impact on the structure of global trade; predictions on the impact on China; and predicted outcomes for SSA.

The main conclusions in these pre-January 2005 Reports are as follows:

- With regard to the poverty and livelihoods, the impact on the living standards of the poor in key exporting countries which are likely to see adverse impacts from quota removal - Bangladesh, Mexico, Cambodia and Lesotho – will be very adverse (Table 2.6)

- With regard to global trade, the centre of gravity of the clothing and textiles sector will move even further to Asia in general, and China in particular. Figure 2.3 below summarises the view that both in absolute and relative terms, the two regions most likely to be adversely affected are Mexico and the Caribbean Basin Initiative economies. SSA is equally badly hit in terms of the share of its exports subject to high-risk (around 80 percent in the highest risk category), but the values involved are relatively small. The least likely victims of quota removal are Asia in general, and China in particular.

- China (and India) will be major beneficiaries and individual SSA economies – particularly (Lesotho and South Africa) are likely to be hit very hard.

Table 2. 6: Expected Impact of Elimination of Quotas post 2005 on Selected Countries.

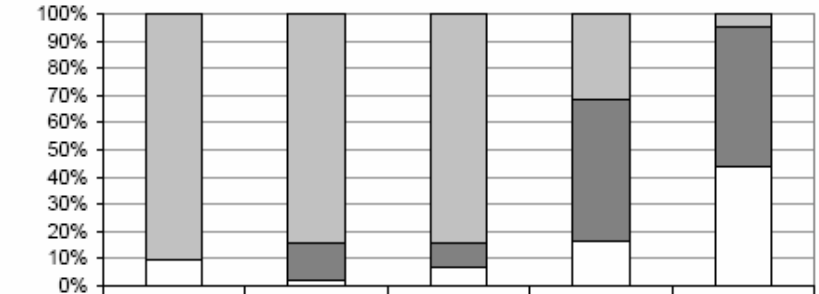
	Prospects for the garment industry	**Prospects for garment workers and communities**	**Dependence on garment industry ***
Bangladesh	**Severely challenged** – Export decline and job losses expected, although should remain a significant garment exporter.	**Very Vulnerable** Few other job opportunities for women workers.	**Dependent** 1,800,000 workers, 40% jobs 62% exports
Mexico	**Severely challenged** in the immediate future. NAFTA and proximity to US remain big advantages.	**Poor –** but some other industrial job opportunities exist.	**Declining but still significant** 750,000 workers 18% of jobs 6% exports
Cambodia	**Unclear –** differences of opinion over future competitiveness.	**Extremely Vulnerable** Few other job opportunities for women workers.	**Dependent** 250,000 workers 62% of jobs 82 % of exports
Lesotho	**Unclear** – Lesotho has been AGOA success story, but vulnerable to competition after 2005.	**Extremely vulnerable** Very poor country with no other industrial employers	**Dependent** 45,000 workers 90 + % of jobs 90 + % of exports

* % of jobs in this column indicates % of industrial employment, % of exports indicates % of manufactured exports, most recently quoted figures.
Shaded boxes indicate those countries with most cause for concern in each area.

Source: Business for Social Responsibility (2005)

Figure 2.3.

Predictions of US apparel imports 2002-2005, by source and risk level (US$ mn. and percent)



	NAFTA	SSA	CBI	ASIA	CHINA
High	8,461	802	12,768	7,662	304
Medium	47	129	1,311	12,768	3,189
Low	876	21	1,049	3,997	2,749

Source: Nathan Associates (2002), based on US Dept. of Commerce

The outcome in 2005 in five key SSA economies

In the discussion in Section 3 below we report the detailed impact on five key SSA economies based on our discussions with enterprises, key industry informants and government departments in these economies and on their prominence as clothing and textiles exporters to the US. The economies in question are Lesotho, South Africa and Swaziland in Southern Africa, Kenya in East Africa, and Madagascar.[6] But before reporting on these discussions, we begin by analysing the emerging trade patterns during 2005. The data presented compares the trade performance of all AGOA clothing exporters to the US, as well as that of Kenya, Lesotho, Madagascar and Swaziland. In the case of South Africa we include textiles exports since, uniquely amongst these countries, it also has significant textiles exports. In each case we compare these countries to the main beneficiary of quota removal – China, In Annex 2 we extend the analysis to India and East Asia (Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea), since they, too, are likely to benefit from quota removal.

These comparisons are made with respect to the collectivity of the ten largest product categories exported to the US in each case, and in detail for the five largest exported products. We then analyse market growth, the unit value of export prices and the outcome in terms of market shares, comparing 2005 with 2004. We assume in this that the most competitive countries are able to simultaneously reduce their export prices and increase their market share (Kaplinsky and Readman, 2005). We also provide data on market shares in 2001 and 2004 to show how these African economies had benefited from AGOA preferences and the quota regime, and how these compared to the period in 2005 when AGOA countries only benefited from GSP tariff preferences.

The common features from this comparison are that

[6] The only large exporter excluded is Mauritius.

- The value of African clothing exports to the US dropped by 17 percent in the first year after quota removal. Volumes were up slightly, but unit prices fell back in aggregate and in key product groupings, by more than 10 percent.

- In general AGOA economies performed less badly in their major exported items than they did in aggregate, suggesting a process of specialisation. However, alarmingly, in general China's export growth in these sectors and the rate of price decline was faster than for its overall exports, suggesting potentially heightened competition for SSA products in the future.

- China's market share in the same product groupings grew dramatically, whilst with very few exceptions those of AGOA as a whole and individual exporting countries fell back. This was the case for virtually every product category, with the exception of Lesotho's exports of denim jeans following the commissioning of its denim mill in late 2004.

- Even though overall export values remained broadly stable, employment in the clothing and textiles sector fell very significantly in all of the five economies, probably reflecting an increase in efficiency and growing firm-mortality.

- South Africa, Lesotho and Madagascar fared worse than Swaziland (whose exports fell only slightly), and Kenya (whose value of exports remained unchanged).

- South Africa reflects a possible and negative face of SSA's future. Unable to access imported materials through the derogation on market-entry for least-developed countries, it uniquely saw a very large fall (a halving in fact) of its exports to the US.

- The share of SSA exporters in the US clothing and textiles imports grew between 2001 and 2004, reflecting the combination of quota-access and preferential AGOA trading arrangements. However, the removal of MFA quotas set back this advance, and African exporters experienced a significant fall in their share of the US market after quota removal.

AGOA and China (Table 2.7)

The value of all AGOA economies' exports fell by 17 in the first year after quota removal, whereas the value of China's exports in the same product groupings in the same period rose by 58 percent. The top 10- AGOA clothing exports performed in the same way as the aggregate, falling in value by nearly 15 percent. The value of China's exports in these key items grew very significantly, by 161 percent in the same period. The decline in AGOA export values for the top three exported products was even greater.

China's export surge was built on a sharp fall in unit prices which virtually halved for the top 10 products in aggregate, and an even greater fall in the top three

AGOA-exported items. Consequently, whereas the AGOA economies had seen a rise in their market share in the US between 2001 and 2004 (from 1.6 to 3 percent for the top 10 products), this fell between 2005 and 2004 (to 2 percent). In the same period – the first ten months of 2005 - China's market share surged from 3.3 to 8 percent for the top 10 AGOA-exported products, and to an even greater extent for the top three AGOA-exported products.

Table 2.7: AGOA versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	AGOA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		AGOA market share (%)			China market share (%)	
		AGOA	China	AGOA	China	2001	2004	2005	2004	2005
Total	1,460,600,000	-17	58			1.6	3	2	16	23
1	162,100,000	-21.4	215.3	-6.5	-57.5	4.34	5.4	4.0	1.8	5.5
2	113,600,000	-22.7	82.5	-10.2	-67.7	3.61	6.7	4.7	2.3	3.8
3	116,700,000	-18.1	231.3	4.7	-53.5	2.27	6.1	4.5	4.3	13.0
4	98,200,000	17.3	138.2	-8.5	-45.1	2.97	5.2	5.5	1.7	3.5
5	74,400,000	-1.2	442.0	-3.4	-34.1	3.53	4.2	3.6	1.5	7.1
Avg Top 10*	76,400,000	-14.7	161.1	-0.9	-45.9	3.4	5.3	4.3	3.3	8.0

item	
1	Women's Or Girls' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
2	Men's Or Boys' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
3	Women's Trousers And Breeches, Of Cotton, Not Knitted, Other
4	Men's Trousers And Breeches, Not Knitted, Of Cotton, Blue Denim
5	Women's Trousers And Breeches, Of Cotton, Not Knitted, Blue Denim

*weighted average

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

Lesotho and China (Table 2.8)

The performance of Lesotho's overall exports to the US mirrored that of AGOA very closely – a fall in value of 14 percent with a rise in China's exports of 112 percent. The overall value of Lesotho's top-ten AGOA exports decreased by more than seven percent in the year after quota removal, whereas China increased its value by 151 percent in the same products. The gains made in the top five products reflect the exports of denim jeans incorporating material from the denim mill completed in 2004. Lesotho's Unit prices fell by around three percent post quota removal (China's unit export prices for the same products almost halved in value), and market share fell in all products except denim. Post quota- removal China's market share rose in all of the major products exported by Lesotho to the US, including in the denim categories.

Table 2.8: Lesotho versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	Lesotho exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Lesotho market share (%)			China market share (%)	
		Lesotho	China	Lesotho	China	2001	2004	2005	2004	2005
Total	390,600,000	-14	112			0.53	1.0	0.8	8	16
1	59,300,000	-9.3	215.3	-9.2	-57.5	1.42	1.7	1.5	1.8	5.5
2	43,900,000	-16.7	82.5	-12.8	-67.7	0.95	2.4	1.8	2.3	3.8
3	39,300,000	36.1	138.2	-8.5	-45.1	1.58	1.8	2.2	1.7	3.5
4	30,800,000	34.0	534.7	-4.6	-52.8	2.76	6.9	8.2	0.7	4.0
5	12,000,000	-41.0	442.0	-9.9	-34.1	1.39	1.1	0.6	1.5	7.1
Avg Top 10*	24,500,000	-7.4	151.6	-3.2	-46.2	1.2	1.8	1.5	3.2	7.7

item	
1	Women's Or Girls' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
2	Men's Or Boys' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
3	Men's Trousers And Breeches, Not Knitted, Of Cotton, Blue Denim
4	Boys' Trousers And Breeches, Not Knitted, Of Cotton, Not Imported As Parts Of Playsuits, Blue Denim
5	Women's Trousers And Breeches, Of Cotton, Not Knitted, Blue Denim

*weighted average

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

The decline in the labour-intensive knitwear products was reflected in employment patterns, and Lesotho saw a very dramatic decline in the number of firms and in employment in the clothing sector in the year between July 2004 and July 2005, spanning the removal of MFA-quotas (Table 2.9). Whilst the commissioning of the denim mill did much to sustain export values, it is a very capital-intensive plant (employing 9000 people at the outset, and 750 in early 2006, an investment cost of $100m) and resulted in only a small increase in total employment in woven products subsector. It produces 2m metres of cloth per month, somewhere below the requirement in 2002 of 2.5m.mpm. The investor - Nien Hsing from Taiwan - is the world's largest jeans manufacturer. A second Taiwanese jeans producer in Lesotho (CGM) purchased a Taiwanese-owned denim plant in South Africa in 2002, producing 500 mpm. Thus, it is likely that Lesotho will be able to source almost all its current denim cloth requirements from AGOA countries, and hence to be able to meet the AGOA rules of origin even after the local content derogation has expired in September 2007

Table 2.9: Firm population and employment in Lesotho's textile and clothing sector, 2004-5

	Knitwear	Woven products	Fabrics, Yarn, Embroidery, screen-printing, packaging
Number of firms:			
July 2004	38	6	NA
July 2005	29	6	6
Employment			
July 2004	50,217		NA
July 2005	35,678		1,171

Source; Interviews and personal communication Mark Bennett

Swaziland and China (Table 2.10)

In the year after quota removal, Swaziland's total clothing and textile exports declined by ten percent. The largest impacts were felt in the same pullover subsector (its largest export item) where all AGOA exporters suffered from competition from China. Chinese exports increased at a higher rate (128 percent). In aggregate, Swazi producers reduced the unit prices of their exports marginally (2.7 percent), unlike China, whose exports of similar products more than halved in price. In some products, price pressures were keenly felt.[7] Whilst Swaziland's market share in the US fell back between 2004 and 2005 (from 0.4 to 0.3 percent), that of China in the same product categories almost doubled, from 9 to 17 percent between 2004 and 2005.

Despite this largely stable export performance, the number of firms operating in the Swazi clothing halved between 2004 and 2005 (many of the Chinese extension owned firms leaving), and employment, having risen from 3,000 in 2001 to 32,000 in 2004, collapsed to only 14,000 in 2005 (Table 2.11). This implies either a significant increase in productivity in the Swazi clothing sector, or the transition to higher value added products or (as claimed by a authoritative source) significant trans-shipment of the Chinese produced clothing from those who relocated back to China claiming AGOA export benefits.

[7] A Swaziland producer won an order for $21 per dozen woven trousers (chinos) in 2004. In 2005 the same US buyer placed a new order for the same specifications to a China producer at $9.50 per dozen. Both manufacturers quoted a price using the same fabric.

Table 2.10: Swaziland versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	Swaziland exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Swaziland market share (%)			China market share (%)	
		Swazi	China	Swazi	China	2001	2004	2005	2004	2005
Total	160,800,000	- 10	91			0.12	0.4	0.3	9	17
1	16,900,000	-46.3	215.3	-5.5	-57.5	0.49	0.8	0.4	1.8	5.5
2	13,700,000	10.9	231.3	-2.5	-53.5	0.03	0.5	0.5	4.3	13.0
3	10,600,000	8.8	48.3	-13.7	-36.0	0.00	1.1	1.2	8.4	12.7
4	13,200,000	52.5	57.7	15.1	-31.6	0.11	0.5	0.9	9.6	16.9
5	11,300,000	58.4	97.4	0.2	-41.5	0.02	1.0	1.7	3.5	7.3
Avg Top 10*	8,900,000	-5.8	127.6	-2.7	-51.9	0.2	0.7	0.6	3.6	7.8

item	
1	Women's Or Girls' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
2	Women's Trousers And Breeches, Of Cotton, Not Knitted, Other
3	Women's Trousers And Breeches, Of Synthetic Fibers, Not Knitted
4	Women's Or Girls' Other Pullovers, And Similar Articles, Of Man-Made Fibers, Knitted Or Crocheted, Containing Less Than 30 Percent By Weight Of Silk
5	Men's Or Boys' Other Pullovers, And Similar Articles, Of Man-Made Fibers, Knitted Or Crocheted, Containing Less Than 30 Percent By Weight Of Silk

*weighted average

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

Table 2.11: Firm population and employment in Swaziland's textile and clothing sector, 2004-5

	2001	2004	2005
Number of firms	3	32	16
Employment	3,000	32,000	14,000

Source: Company interviews in Swaziland

Kenya and China (Table 2.12)

Kenya's aggregate AGOA clothing and textile exports fell relatively little in 2005, by only 2.5 percent. Unlike the other AGOA economies, the aggregate performed better than the top 10 products, where overall export value of the 10 major products fell by 9 percent in 2005. Kenya's exports of women's trousers rose sharply, whereas those of men's products fell. By contrast, China's exports to the US of these top-10 products rocketed by 270 percent, on the back of a near-halving of unit export prices. Kenya's unit export prices also fell, by 9.3 percent. In the face of this export performance, its market share in its top 10 products fell back 1.5 to 1.3 percent between 2004 and 2005, and China's grew rapidly, from 2.5 to 8.8 percent in the same period.

Employment fell in the export oriented firms in Kenya's EPZs, as the number of firms declined from 30 in 2004, to 25 in June 2005 (Table 2.13). The decline in

employment, whilst severe (from a peak of 36,348 in 2003 to 31,745 in June 2005), was much less than the predicted loss of 25,000 jobs (East African Standard, cited in Manchester Trade Team, 2005.

Table 2.12: Kenya versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	Kenya exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Kenya market share (%)			China market share (%)	
		Kenya	China	Kenya	China	2001	2004	2005	2004	2005
Total	270,300,000	- 2.5	77			0.14	0.54	0.49	12	19
1	60,500,000	8.3	231.3	15.7	-53.5	0.35	2.4	2.4	4.3	13.0
2	33,400,000	24.8	442.0	2.9	-34.1	1.07	1.5	1.6	1.5	7.1
3	12,700,000	-46.2	114.8	-6.6	-38.6	0.19	1.5	0.8	3.5	7.7
4	5,700,000	-64.9	548.7	1.1	-40.0	0.94	2.3	0.8	2.3	14.7
5	9,800,000	-20.6	1123.4	-12.4	-48.8	1.10	4.4	3.5	1.1	14.2
Avg Top 10*	15,900,000	-9.3	269.6	-1.9	-44.8	0.5	1.5	1.3	2.5	8.8

item	
1	Women's Trousers And Breeches, Of Cotton, Not Knitted, Other
2	Women's Trousers And Breeches, Of Cotton, Not Knitted, Blue Denim
3	Men's Trousers And Breeches, Not Knitted, Of Cotton, Other
4	Men's Shorts, Not Knitted, Of Cotton
5	Girls' Trousers And Breeches, Of Cotton, Not Knitted, Other, Other

*weighted average

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

Table 2.13 Firm population and employment in Kenya's textile and clothing sector, 2002-5

	2002	2003	2004	2005 (June)
Number of firms	30	35	30	25
Employment	25,288	36,348	34,614	31,745

Source: Export Promotion Council

Madagascar and China (Table 2.14)

Madagascar experienced a decline of 14 percent in its total exports, and more than 16 percent in the exports of its top-10 products to the US in 2005. As in the case of other AGOA countries, China's exports to the US grew very rapidly in this period (by 226 percent for Madagascar's top-10 exports) on the back of a near-halving of unit export prices. Whilst Madagascar's market share fell in 2005, that of China rose from thirteen to twenty two percent in the relevant product groupings. Significantly, Kenya and Madagascar compete in the same product grouping (women's trousers), but whilst Madagascar's exports fell in this product grouping, those of Kenya grew. This reflects the differing strategic decisions of TNC investors in the two economies. (However, we have no detailed knowledge of whether sourcing was directly switched from Madagascar to Kenya for these products).

Table 2.14: Madagascar versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	Madagascar exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Madagascar market share (%)			China market share (%)	
		Madagascar	China	Madagascar	China	2001	2004	2005	2004	2005
Total	276,900,000	- 14	76			0.36	0.57	0.46	13	21
1	33,000,000	-24.6	231.3	-3.1	-53.5	0.34	1.9	1.3	4.3	13.0
2	31,200,000	-13.1	82.5	-8.9	-67.7	0.69	1.6	1.3	2.3	3.8
3	28,300,000	-8.0	215.3	1.7	-57.5	0.64	0.8	0.7	1.8	5.5
4	22,400,000	51.4	138.2	-2.0	-45.1	0.39	0.9	1.2	1.7	3.5
5	7,400,000	-45.9	548.7	-0.1	-40.0	0.79	2.0	1.1	2.3	14.7
Avg Top 10*	15,300,000	-16.4	226.8	-9.5	-44.0	0.5	1.4	1.0	2.9	8.8

item	
1	Women's Trousers And Breeches, Of Cotton, Not Knitted, Other
2	Men's Or Boys' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
3	Women's Or Girls' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
4	Men's Trousers And Breeches, Not Knitted, Of Cotton, Blue Denim
5	Men's Shorts, Not Knitted, Of Cotton

*weighted average
Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

South Africa and China (Table 2.15)

South Africa suffered very badly after the removal of quotas, experiencing a fall of 34 percent in 2005. In the same period, China's exports in the same product categories rose by 65 percent – a "less stellar" performance when compared to China's performance in the major products exported by Lesotho and all-AGO, but nevertheless substantial. As for the other AGOA countries South Africa's unit export prices were largely stable (and indeed rose slightly by three percent), as China's fell by one-third. Its share of the US market, having decreased slightly between 2001 and 2004 (unlike the other AGOA economies, South African firms were unable to use extra-AGOA fabrics) halved after the elimination of MFA quotas. South Africa is also the one country where there are substantial direct effects of Chinese competition, with significant Chinese penetration from imports of its substantial domestic market.

Table 2.15: SA versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	S Africa exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		S Africa market share (%)			China market share (%)	
		SA	China	SA	China	2001	2004	2005	2004	2005
Total	92,400,000	- 45	65			0.37	0.25	0.13	13	21
1	22,100,000	0.1	82.5	-7.3	-67.7	1.3	1.0	0.9	2.3	3.8
2	6,000,000	-70.3	138.2	-14.1	-45.1	0.3	1.3	0.3	1.7	3.5
3	2,900,000	-66.9	215.3	13.1	-57.5	1.2	0.2	0.1	1.8	5.5
4	1,000,000	-86.8	114.8	9.5	-38.6	0.4	0.5	0.1	3.5	7.7
5	2,100,000	-73.2	48.3	8.7	-36.0	0.1	0.9	0.2	8.4	12.7
Avg Top 10*	4,800,000	-50.3	166.2	3.0	-33.0	0.7	0.7	0.3	3.0	7.5

item	
1	Men's Or Boys' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
2	Men's Trousers And Breeches, Not Knitted, Of Cotton, Blue Denim
3	Women's Or Girls' Other Pullovers, And Similar Garments, Of Cotton, Knitted Or Crocheted, Containing Less Than 36 Percent By Weight Of Flax Fibers
4	Women's Trousers And Breeches, Of Synthetic Fibers, Not Knitted
5	Men's Trousers And Breeches, Not Knitted, Of Cotton, Other

*weighted average

Source: Calculated from http://dataweb.usitc.gov data, accessed on 10th January 2006

The employment impact of this fall in exports to the US (and EU) markets has led to a substantial loss of employment in South Africa's formal and informal sector clothing industries (Table 2.16). By contrast, in the larger scale and more capital intensive textiles sector where some firms have proved to be innovators in industrial textiles, employment has fallen less significantly.

Table 2.16: Firm population and employment in South Africa's textile and clothing sector, 2002-5

	Clothing Formal sector	Formal and informal sector	Textiles Formal and informal sector
Number of firms:			
July 2004	1,175	2,200	310
July 2005	1,170	NA	300
Employment			
July 2004	98,000	240,000	61,500
July 2005	86,000	200,000	61,000

Source: Industry and Government interviews

2. 3. SSA IN THE POST QUOTA ERA IN FIVE KEY EXPORTING ECONOMIES; WHAT'S HAPPENING ON THE GROUND?

Method

Section 2 above provided a bird's-eye view of developments in AGOA exports to the US, by all AGOA economies and for five individual economies. It was based largely on an analysis of secondary data. The broad conclusion was that although there has been considerable pricing pressure and employment loss, and although some sectors (knitwear) and some economies (South Africa and Lesotho) were hit worse than others, SSA AGOA exports were surprisingly resilient. This outcome, at least in the 12 months in 2005, runs against some of the bolder predictions of the post-quota future of SSA's clothing and textile sector (Annex 1).

What explains this resilience, and what policy-implications flow from it? These dynamics can only be understood by more detailed empirical enquiry. In order to explore these issues we undertook two types of investigation. Although a seemingly obvious beginning point is to understand what buyers want from their suppliers, this exercise has seldom been undertaken. There are multiple buyers in this chain, as can be seen from Figure 2.4. The train is triggered by the final retailers in the US who, often using in-house design offices, will define the product lines and price points which they require for the coming season. In a very limited number of cases retailers and brand-sellers (such as Gap Inc.) will make direct contact with manufacturers. But in most cases they will pass over their requirements to US-based sourcing agents. These sourcing agents, in turn, will either contact sourcing agents in producing countries, or more commonly and especially when there are very large orders, will make contact with predominantly Asian-based manufacturing companies (the "triangular manufactures"). (In recent years the emergence of small SSA-based triangular producers can be observed). It is these manufacturing houses who will ultimately decide where different products are to be sourced from, and most often will provide clothing manufacturers not just with the designs, but also the fabrics which they will use. However, in most cases the US principals and sourcing agents will be aware of the source of these garments and will influence the decision made by their Asian intermediary buyers and manufacturing houses

Our interviews were exclusively with the US-based retail and sourcing agents, shaded grey in Figure 2.4. Our reasons for this decision were based on the premise that SSA clothing exports were overwhelmingly destined for the US final market (Table 2.5 above), and we assumed that it was here that the key sourcing decisions were to be made.

The views and perspectives of 20 U.S. buyers were obtained by Nathan Associates Inc. in a telephone survey undertaken in the summer of 2005. These companies are large, multi-store operations with substantive global sourcing activities in clothing and other consumer goods. The participants came from four key market segments: branded specialty retail (nine responses), manufacturers (branded and private label eight responses), department stores (two responses), and mass merchants (one response). The share of their total sourcing portfolio which comes from SSA ranges from one to five percent with the exception of one small company (turnover of $30m in 2004) which obtained 30 percent of its

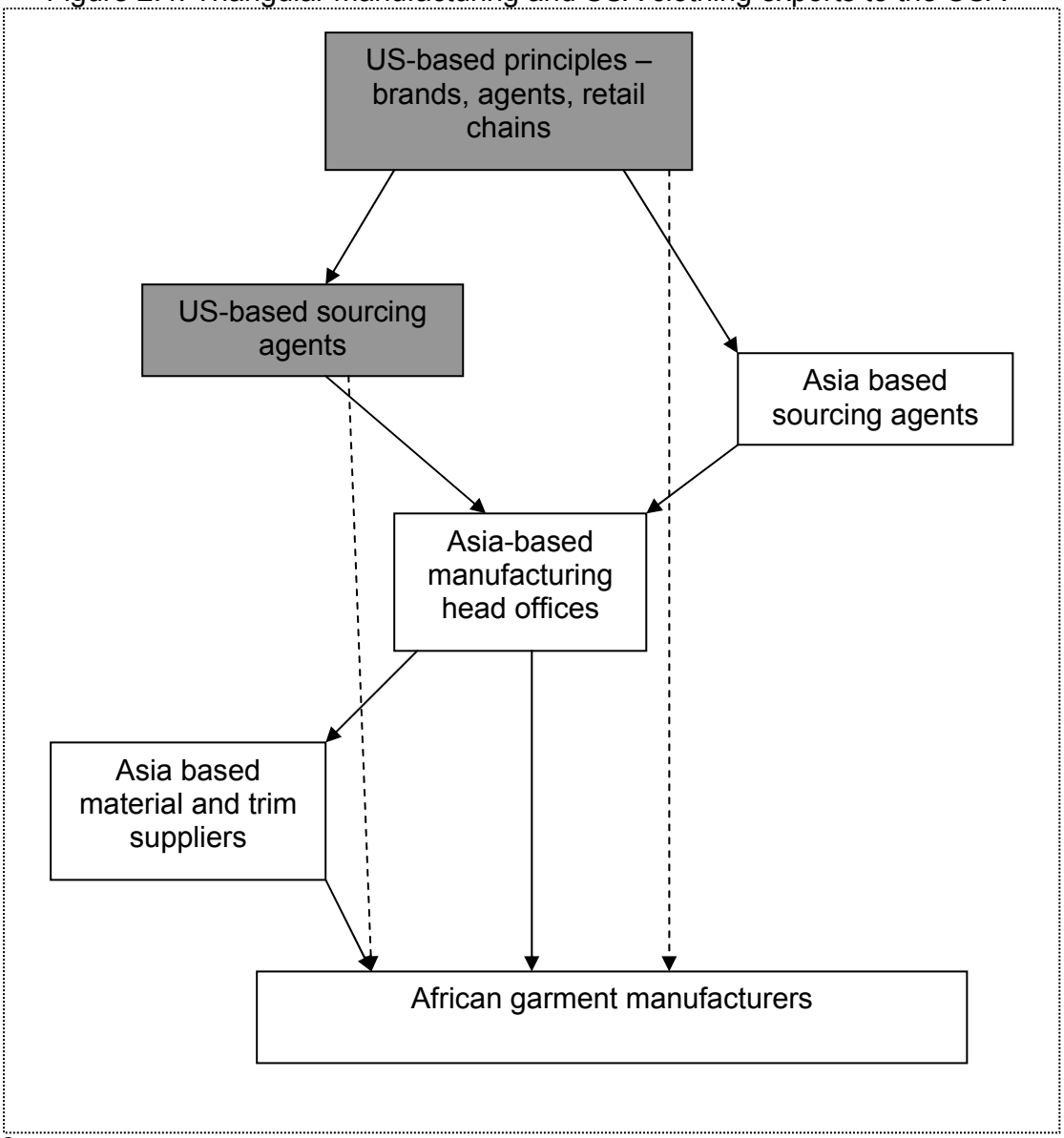
product from SSA. The structure of this sample of buyers is shown in Table 2.17 below. 7

Table 2.17: Sample size of U.S. buyers

Size (turnover) in 2004	No. of firms
Under $50 million	1
$100 to $250 million	3
$300 to $500 million	4
$500 million to $ 1billion	2
More than $1 billion	8
Turnover not available	2
Total sample	20

Source: Nathan Associates Inc., 2005

Figure 2.4: Triangular manufacturing and SSA clothing exports to the USA[a]



[a] Dotted lines represent weak linkages; Interviews conducted with buyers in shaded-boxes. These represent "ideal types" – for example, The Gap has strong direct links with manufactures.

What do buyers think?

The first set of questions we asked buyers was whether quota-removal was likely to lead them to retreat from SSA, and whether this differed between the short-term (the coming one-to-two years) and the medium-term (the coming three-to-five years). A key response (Table 2.18) was that 16 of the 19 respondents said that they were largely sourcing from SSA in order to compete on price. Their inability to access product from quota-constrained economies such as China had not been the major reason why they were importing from SSA.[8] Second, and as a consequence of SSA's current price competitiveness, around half of the buyers thought that there would be no change over the coming two years, and four of them said that, if anything, they were likely to increase purchases from SSA. However, there is clearly an expectation that SSA will suffer from diminishing competitiveness, since when asked about intentions over the medium-term, almost half of the buyers (nine of the 19) thought that they were likely to decrease imports from SSA over the three-to-five year time horizon.

Table 2.18: How important have MFA quotas been in your decision to source from SSA? (Number of buyers)

	Decrease	Unchanged	Increase	Total
"How are you likely to change SSA sourcing as a result of quota elimination?"	3	16	0	19
"What are your plans to source from SSA in the next 1-2 years?"	4	11	4	19
"What are your plans to source from SSA in the next 3-5 years?"	9	8	2	19

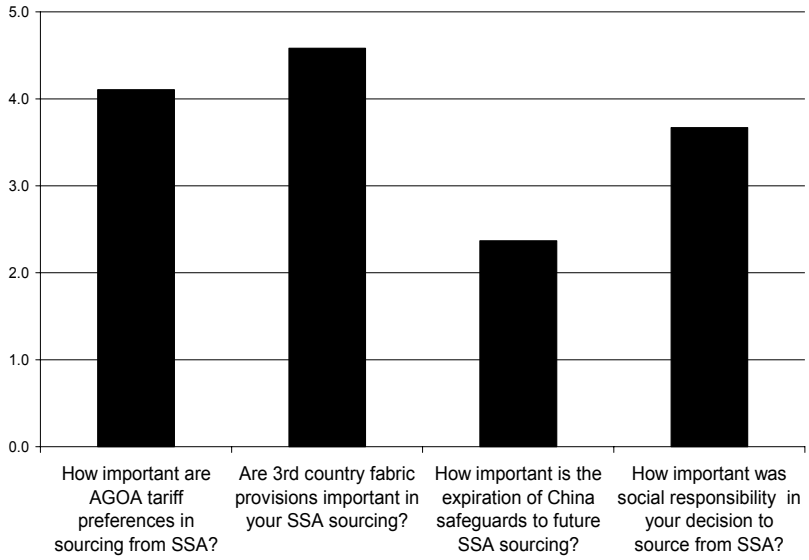
If quotas were not a major reason why buyers currently source from SSA, then how important are AGOA preferences to SSA's competitiveness? The response (Figure 2.5) was that this was obviously critical, with more than half of the buyers (10 out of 19) reporting that it was "very important". However, even more important was the view that it was the derogation on the rules of origin allowing AGOA economies to source fabrics from Asia which made it possible for these economies to compete (15 of the 19 buyers characterised this as being "very important"). Again, reflecting the fact that quotas have not been the basis for sourcing from SSA in recent years, few of the buyers thought that existing or likely future "China safeguards" would make much difference.[9] A majority of buyers also thought that consumer pressures on Corporate Social Responsibility

[8] Although this is the current perception of US buyers, it is undoubtedly the case that the origins of the export-oriented clothing and textile sector in SSA are to be found in its availability of quotas at a time in which Asian economies had filled their quotas in exporting to major markets.

[9] The Chinese accession agreement to the WTO, allows for safeguard tariffs and quotas to be applied solely against Chinese textiles and clothing, even when imports exert only a slight adverse impact on the domestic industry. In June 2005, the EU and China reached an agreement that limited 10 categories of Chinese textiles exports to the EU to between 8 and 12.5 percent growth above a specified base period for the next three years. In December 2005, the US and Chinese trade representatives agreed to a three-year agreement reducing US. imports of Chinese textile and apparel products in all or parts of 34 sensitive categories.

(CSR) were a significant factor in sourcing from SSA, reflecting the growing commercial need of buyers to show awareness of the poverty-impact of their sourcing decisions.

Figure 2.5: Buyer perceptions of the relative importance of AGOA preferences, China safeguards and corporate social responsibility in the decision to source from SSA (1=not important; 5= very important)



Given the decision to source from SSA, buyers may be affected by factors which are specific to the country, and those which are specific to the supplying firm. Figures 2.6 and 2.7 report the views of buyers on country-specific factors, and compares their ratings of AGOA countries in general with China and India. China has a clear advantage across the board, particularly with respect to access to materials (either domestically or from the region), transit time and the capabilities of its labour force. The only country-specific area in which SSA is not disadvantaged is in regard to corporate social responsibility (CSR), but even here it only compares with, rather than exceeds, standards available in China and India. In general, with the exception of labour standards and CSR, China's competitive standing far exceeds that of India and SSA, once again pointing to the importance of AGOA tariff preferences in the decision to source from SSA.

Figure 2.6: The importance of country-specific factors in the sourcing decisions of US buyers

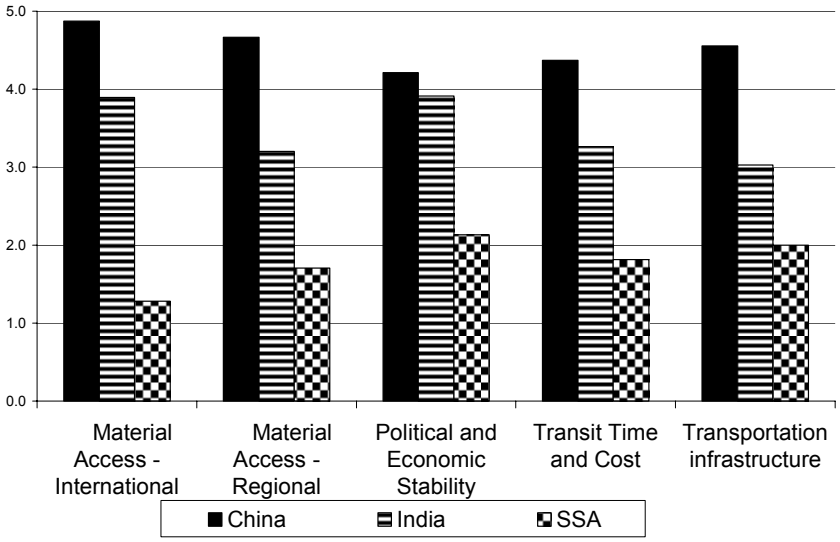
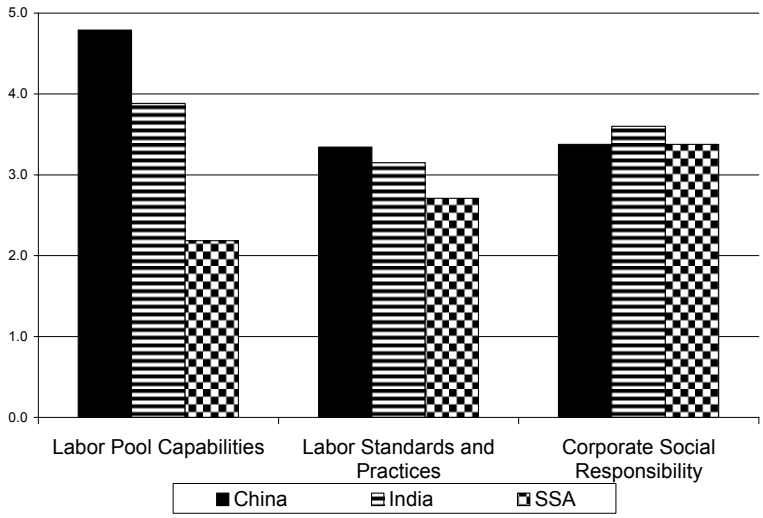


Figure 2.7: The importance of country-specific factors in the sourcing decisions of US buyers



Figures 2.8 and 2.9 report the firm-specific concerns which lead buyers to choose particular suppliers, and again compares the general capabilities of firms in China, India and SSA. Here, once again, Chinese firms stand out as competitive producers, and SSA lags India as well. The relative weakness of SSA producers is most pronounced with regard to delivery and lead-time (partly a function of internal procedures), technology and product development capabilities. Some US branded buyers complain that Lesotho jeans manufactures have not kept up with changes in fashion and in wet and dry finishing technologies However, SSA producers perform less badly with respect to manufacturing costs (reflecting in part access to tariff preferences) and labour relations.

Figure 2.8: The importance of firm-specific factors in the sourcing decisions of US buyers

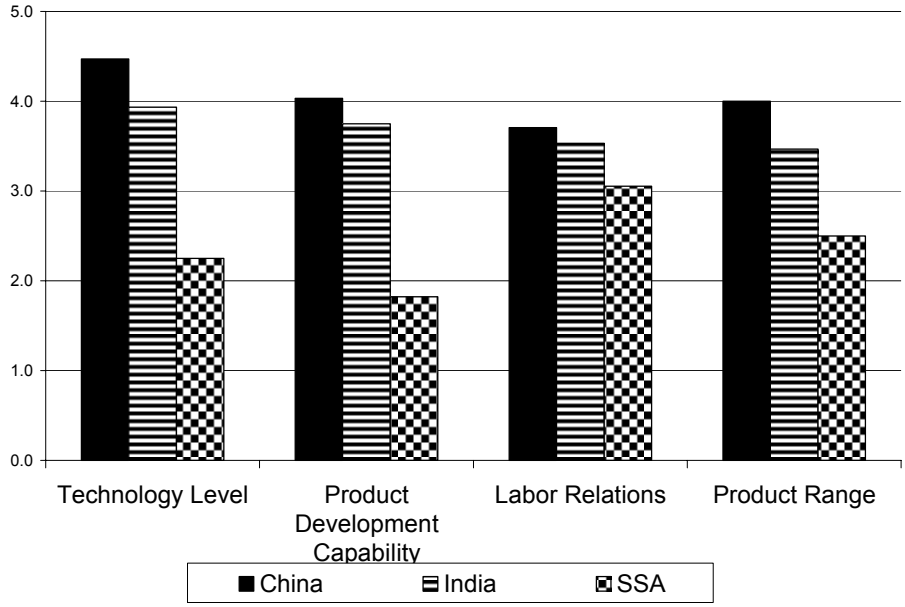
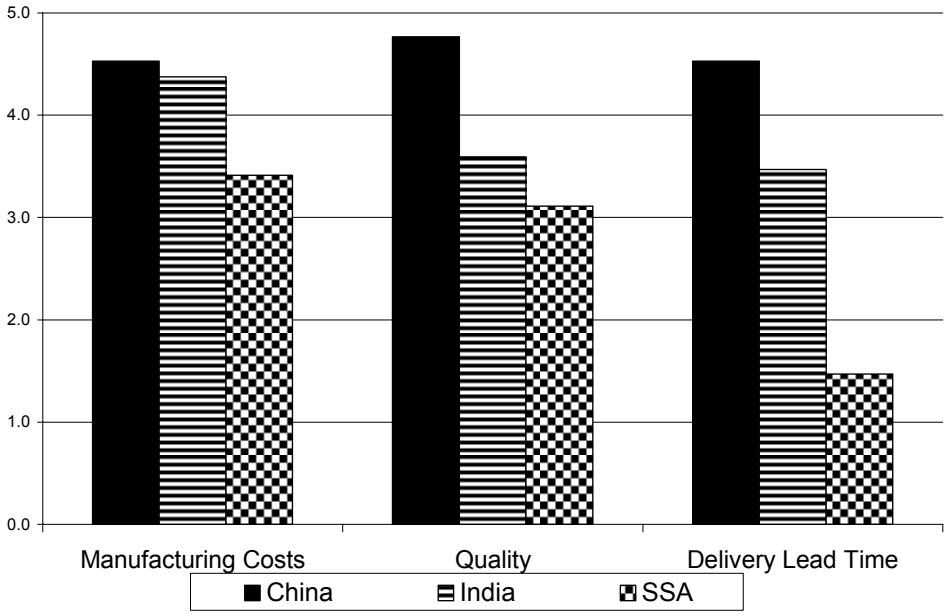


Figure 2.9: The importance of firm-specific factors in the sourcing decisions of US buyers



There is one very important caveat for the views expressed by these US buyers which emerged in our interviews with AGOA manufacturers (see below). Whilst these US principals clearly had views about the impact of quotas, trade preferences and country and firm-specific factors in sourcing from SSA, China and India, in most cases they did not make the key sourcing decisions. These were in fact made by the Asian trading houses and the Asia-based manufacturing houses described in the discussion of Figure 2.4 above. We return to the significance of this sourcing process later in the Report.

What do producers think?

The second set of empirical investigations which we undertook was to visit enterprises, governments and key industry informants in the producing countries. Field research was conducted in Kenya, Lesotho, South Africa and Swaziland between September and November 2005 and March 2005 in Madagascar. In total, 51 interviews were undertaken with manufacturers, local government officials and key industry informants (Table 2.19), and with the exception of South Africa, the sample of firms' accounts for at least 15 percent of total sectoral employment (Table 2.20).

Table 2.19: Breakdown of interviews from the Sub-Saharan Africa apparel industry

No. of interviews	**Kenya**	**Lesotho**	**South Africa**	**Swaziland**	**Madagascar**
Clothing manufacturers	6	4	4	4	21
Textile manufacturers			2		
Government officials	4	1	2		
Industry experts		1	2		

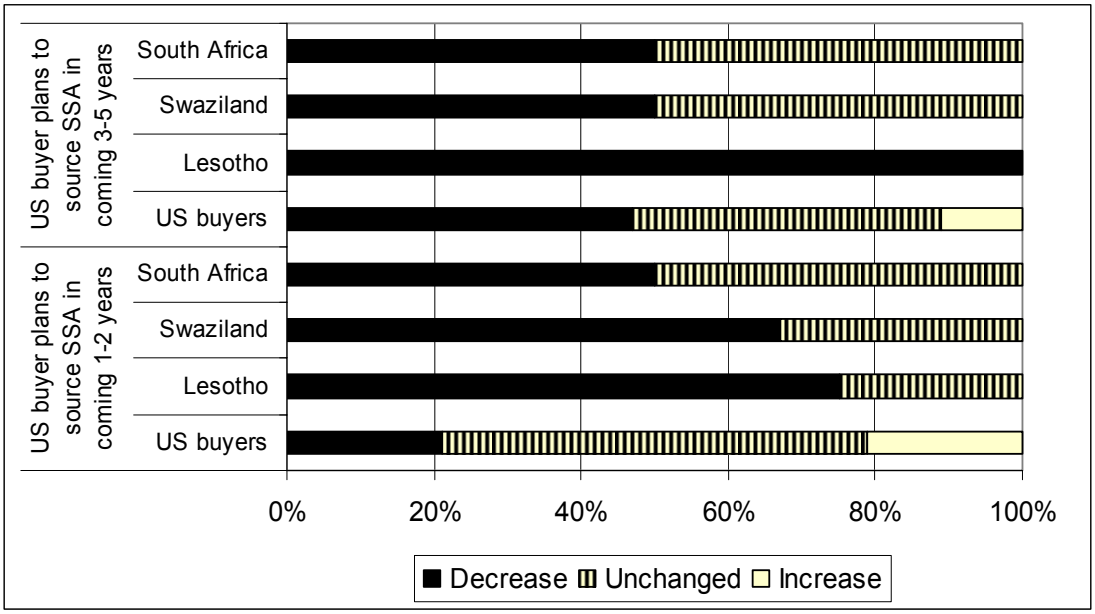
Table 2.20: Sample and industry size: a claim for representation

	Kenya	**Lesotho**	**S. Africa**	**Swaziland**	**Madagascar**
Number of clothing firms:					
Sample	6	4	4	4	21
Total industry	29	33	1,170	16	118
Industry workforce:					
Sample	5,000	15,900	2,400	2,600	36,780
Total industry	32,00	35,678	86,00	16,000	100-120,000

By design, this was a pilot study. Although we had a reasonably accurate sample of the population of the key categories of US-based buyers and SSA-based manufacturers, the interviews were short and were largely questionnaire-based, with little scope for a more detailed understanding of institutional and structural dynamics or of the determinants of firm performance.

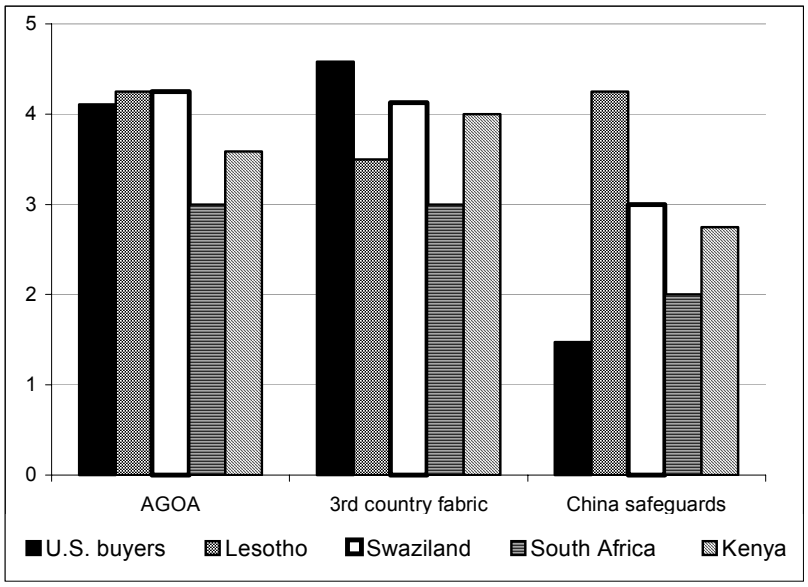
One of the more surprising outcomes of these plant level visits was the unrealistic pessimism of the firms, at least insofar as this is reflected in responses from enterprises in Kenya, Lesotho, Swaziland and South Africa. As Figure 2.10 shows, the US buyers have much more positive intentions of staying in the region than the firms perceive. Fully 80 percent of them expect either to have unchanged purchasing requirements or increased requirements from SSA over the coming 1-2 years, and almost half believe that this will be the case even over the 3-5 year time horizon. By contrast, producers in all countries (and especially Lesotho) think it much more likely that sourcing requirements will deteriorate. This pessimism reflects their unwillingness to invest in training and thus has unfortunate negative consequences.

Figure 2.10: Producer perceptions of future sourcing from SSA



There was much closer awareness amongst the producers of the extent to which trade preferences influenced the sourcing decisions of buyers, although here the South African producers (who have no access to cheap Asian fabrics) were not quite as perceptive at those from the smaller economies (Figure 2.11). The exception here was in regard to China safeguards where the producers are probably guilty of clutching at straws. That is, the US buyers were less likely to rate China safeguards as being as significant as the producers. This is because their decisions to source from SSA in the past have been driven more by cost (the benefits of duty free access) and CSR concerns than by the quota-determined inability of the Chinese to serve the US market prior to January 2005.

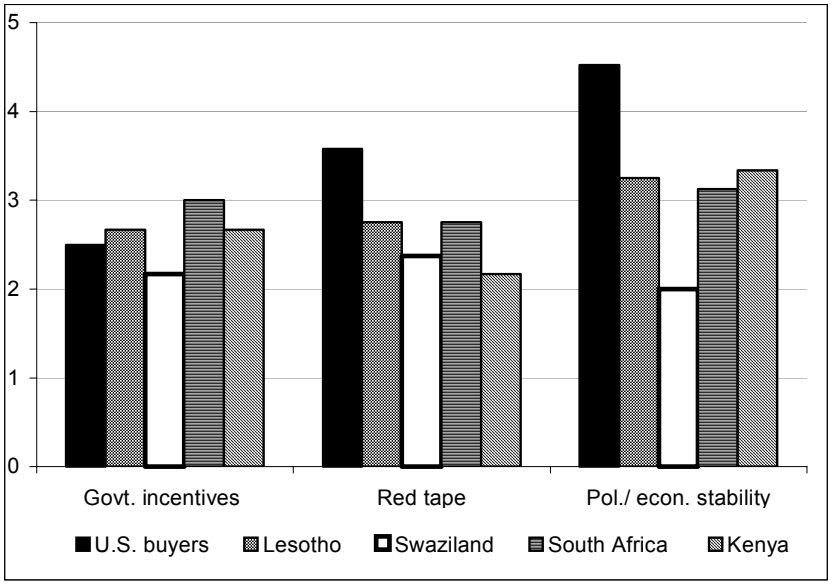
Figure 2.11 The importance of trade and corporate factors
(1= not important; 5=very important)



Source: Company interviews

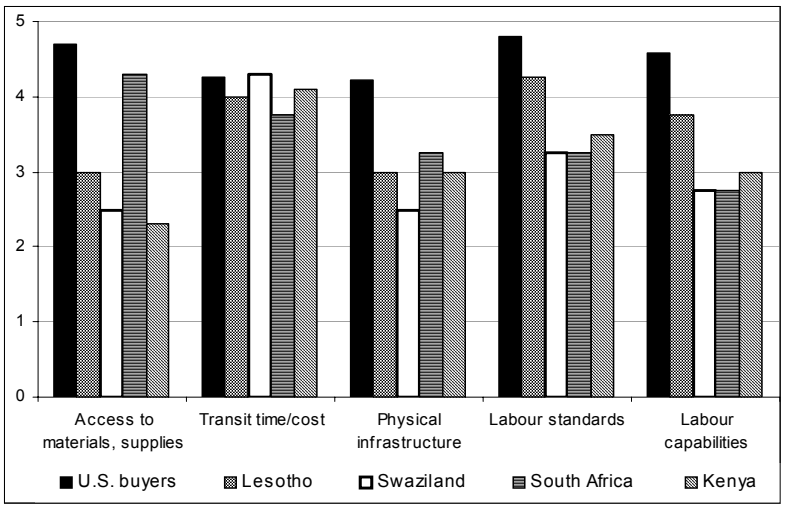
Figures 2.12 and 2.13 show differing perceptions amongst buyers and producers of the importance of country-specific factors in the sourcing decisions of the buyers. As a general rule, buyers tended to rate these as being more important than do producers, with the exception of government incentives. This exception is perhaps not surprising, given the understandable expectation of the producers that somehow government might be persuaded in the future to introduce incentives which might save them from bankruptcy. The biggest gap in understanding arises in relation to the significance of the derogation on access to third-country fibres. This is clearly the key requirement of buyers – an issue which we will return to in the conclusions of this Report – and it is somewhat surprising that producers are not adequately aware of its significance

Figure 2.12. Importance of national condition factors
(1= not important; 5=very important)



Source: Company interviews

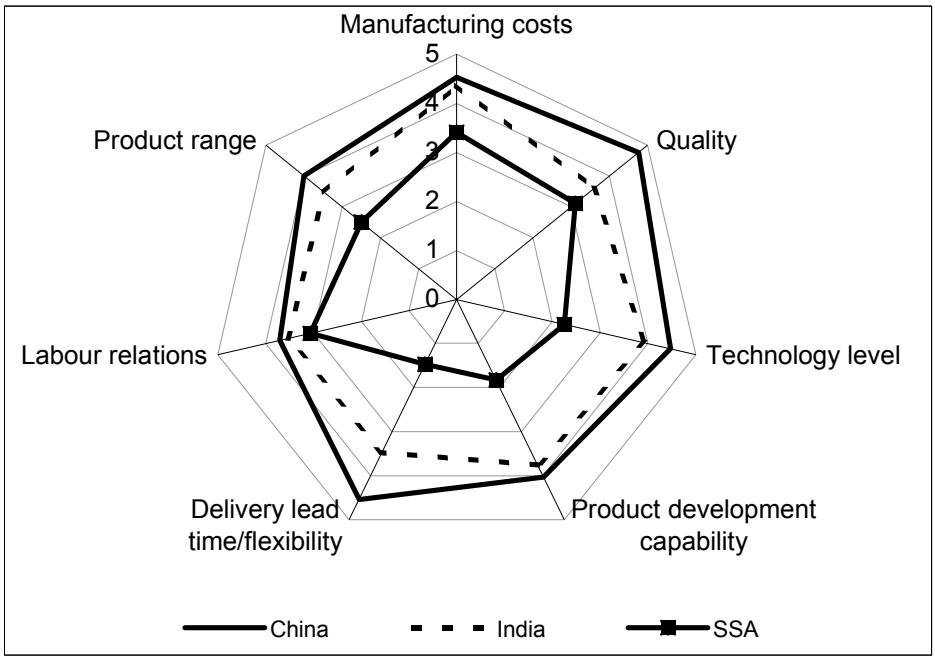
Figure 2.13. Importance of physical infrastructure and human capital
(1= not important; 5=very important)



Source: Company interviews

We also asked producers to assess the importance to buyers of firm-specific competitive attributes, namely with respect to costs, quality, delivery time, flexibility, technology, product development capabilities, product range and labour relations (Figure 2.14). In general producers in Lesotho, Swaziland, South Africa and Kenya were well-attuned to these firm-specific critical success factors of the US buyers, although within this, the gap was greatest for the Swazi firms. When we asked the US buyers to rank the *performance* of firms in SSA when compared to Chinese and Indian counterparts, the outcome was more concerning. Chinese firm capabilities were clearly seen to be more developed, in every respect, followed by Indian suppliers and the, some way behind, by SSA suppliers. The performance gap was smallest for labour relations, and greatest for delivery time and flexibility, product development capabilities, technology levels and quality. With the exception of delivery time, these are all areas where SSA firms can improve and this is an issue which we address in the policy conclusions below.

Figure 2.14 The performance of SSA, China and India clothing firms on operational factors
(1=very poor performance; 5=excellent performance)



Source: Company interviews

2. 4. CAN AN EXPORT-ORIENTED SSA CLOTHING AND TEXTILE INDUSTRY SURVIVE?

As we have seen, contrary to the expectations of many, the removal of quotas has not led to a collapse of AGOA clothing and textile exports. Indeed, in some cases, they have even increased.

It is widely believed that by limiting China's export surge, the introduction of China safeguards in the US (and in the EU) midway through 2005 for three years may lead to a further strengthening of SSA clothing and textile exports. However, the impact of the imposition of China safeguards is generally misinterpreted. Although designed to "protect domestic industry" from Chinese competition, it is not only China whose exports were kept out of major importing markets by quotas. Other low-cost and high-quality Asian producers are similarly able to compete effectively in the major markets (see Annex 2 for detailed data on India and other Asian competitors), and they, rather than SSA or domestic industries in the US and the EU, are likely to be the primary beneficiaries of China safeguards.

Tariff preferences are key …[10]

Although, historically, quotas were important in the establishment of the export-oriented clothing and textiles sector in SSA, the key to understanding the relatively robust performance of SSA AGOA exporters lies in the realm of costs. This, as we have seen from earlier analysis, is the single most important driver for the buyers. Within this, the degree of competitive advantage held by AGOA exporters arises from their duty preferences. And, here, US nominal tariffs significantly underestimate the degree of preference which AGOA producers are actually accorded. This can be seen by taking the example of two different products exported by Swaziland producers (Table 2.21). The first product is cotton denim jeans, where nominal duty preference is 16.6 percent, and the second is synthetic women's underwear, where the nominal duty preference is higher, at 28.2 percent.

These tariffs effectively translate into effective rates of subsidy for exporting firms. The rates of effective subsidy on these products are in fact much higher than these nominal rates, due to the derogation which Swaziland (and all other AGOA producers bar Mauritius, outside of a short period in 2004-5, and South Africa) producers have in using imported fabrics. That is, the nominal duty applies to the whole value of the product, but for AGOA producers using the fabrics derogation, much of the value of their output is made up of imported material. Moreover, not only do the synthetic products' manufacturers gain from higher duties, but because in general cotton products are more complex to manufacture, the proportion of (generally imported) cotton fabric is in fact lower than in the case of imported synthetic material products. Hence, in the case of cotton products (such as denim), the effective rate of subsidy provided by this protective regime is 27.7 percent (rather than 16.6 percent), and in the case of synthetic products (such as underwear) it is 83.9 percent (rather than 28.2 percent)

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[10] In this Report we are only addressing tariff preferences into the US, since this is the major current export market for SSA industry. However, EU Roles of Origin are even more problematic for SSA producers, and explain why almost all exports currently go to the US. Thus an analysis of EU Rules of Origin is important, but is outside of the purview of this report.

Table 2.21: Value added and effective rates of subsidy in cotton denim jeans and synthetic women's undergarments in two Swaziland clothing factories

	DENIM JEANS	SYNTHETIC WOMEN'S UNDERGARMENTS
Labour costs	45%	30%
Fabric and other imported inputs	40%	66%
Utilities	3%	1%
Distribution	2%	2%
Other (agent fee, transport, etc)	10%	1%
Total	100%	100%
Duty preference	16.6%	28.2%
Effective rate of subsidy	27.7	83.9

Source: Company interviews

An indication of the influence of the higher rate of effective subsidy on AGOA clothing and textile exports can be seen in relation to the value of exports of different products. There is a significant positive correlation between tariff rates and the value of exports with regard to the export of 120 products (the top 20 products exported by each of the five countries plus the top-five AGOA exported products) (Table 2.22). In other words, the higher the tariff preferences, the more likely export values will rise. However, this may only confer a temporary advantage. These same sectors are being targeted by Chinese and other Asian producers. This is evidenced by a significant negative correlation between tariff preference levels and unit prices. In other words, it is precisely those highly protected sectors which are under the most severe forms of price pressure, and where falling market shares are most likely to be experienced by AGOA exporters.

Table 2.22: Correlations between the degree of tariff preference, the value of exports, the unit price of exports and market shares in the US: 120 sectors[a]

	Correlation coefficient	Degree of significance[b]
Value of exports	0.189	0.05
Unit price	-0.146	0.10
Market share	0.290	0.01

[a] top 20 products for each of AGOA, Lesotho, South Africa, Swaziland and Madagascar.

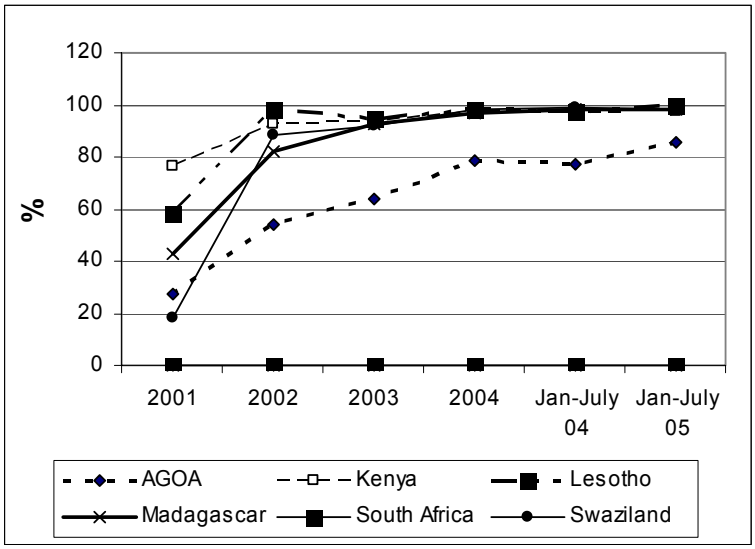
[b] Pearson product moment correlation coefficient two tailed test

The fabric derogation is critical…

Without the derogation on the AGOA Rules of Entry which allow least developed qualifying SSA economies to import their fabrics from outside of the region (or the US), little of the clothing and textile industries in the region would survive. As can be seen from Figure 2.15, with the exception of South Africa (which also affects the AGOA total), almost all fabric in AGOA clothing exports has been imported

(although the new denim mill opened in Lesotho in 2004 will reduce this somewhat in the future). South Africa's experience represents the dark side of AGOA clothing producers' future when and if the fabric derogation is repealed. Its inability to import fabrics, on top of an appreciated exchange rate, lies at the source at the source of the halving of its AGOA exports in the first ten months of 2005 (compared to the same period in 2004). In fact the trajectory of the South African industry – severe difficulties in exporting clothing made from natural fibres, a focus on the domestic market and moving into high technology textile niches (see below) – may represent one option facing other SSA producers. But unlike South Africa with its long tradition of industrial production and a developed textile sector, these options may not be possible for other SSA producers.

Figure 2.15: Share of non-AGOA and non-US cloth in AGOA exports to US, 2004-2005.



Source: Calculated from US Department of Commerce, Office of Textiles and Apparel (OTEXA).

Most of the firms operating in the region source their material inputs from East Asia in general, and predominantly from China. (However, as Table 2.23 shows, Lesotho's long links with Taiwanese investors means than in its case, fabrics are largely sourced from Taiwan rather than China). This is an ironical side effect of the derogation on the rules of entry, in that given the importance of fabrics in production costs (especially in the case of synthetics), the primary beneficiary of the AGOA scheme are the Asian fabric suppliers!

Table 2.23: fabric suppliers for Lesotho clothing firms

	2005	**2004**	**2003**
China	10%	15%	5%
Taiwan	90%	85%	95%

Source: Company interviews in Lesotho

Specialisation has increased

In all of the AGOA exporting economies, specialisation has increased. This is reflected in the fact that overall export values have fallen by more than the top five or top 10 products. On the one hand this can be seen as a positive development, since specialisation lies at the heart of productivity growth and upgrading. But on the other hand it is also a source of vulnerability – the more specialised a system becomes, the more sensitive it becomes to a change in external conditions. And here it is noticeable that Chinese exports to the US in the major items exported by the five major AGOA economies have grown particularly rapidly, on the back of significant declines in prices.

Regional wage costs are high….

Although of primary significance, tariff protection is not the only factor influencing the competitive costs of SSA producers. In other respects they are also penalised. For example, with regard to wages, our interview results suggest that when correcting for hours worked, wages in SSA are relatively high when compared to Asia (Table 2.24). In general Asian producers pay wages of between $0.15 and $0.33 per hour, whereas Southern and East African hourly wages range from $0.44 to $1.87 an hour.

Table 2.24: Hourly wage costs in clothing factories

	India	Pakistan	Bangl	S.Lanka	China (interior	Indon.	Ghana	Kenya	Lesotho	SA*	Swazi
Hrs/w	40	40	35	55	40	60	50	48	45	425	48
$/hr	0.18	0.18	0.15	0.31	0.17	0.33	0.31	0.44	0.51	1.87	0.82

* Formal sector urban areas

Source: Company interviews

Moreover, productivity is low

Wages are only one component of unit labour costs. The other components are the degree of automation involved, the skills possessed by the labour force and the effectiveness of management. A detailed investigation of efficiency in Lesotho observed low levels of skill and efficiency (Salm et. al., 2002). Middle management was particularly weak, and was largely made up of Chinese workers with shopfloor experience, but little management know-how and largely unable to communicate with the labour force. They concluded that “operator productivity within the industry was generally low. This is principally due to deficient recruitment policies, inadequately trained operators, poor supervisory management, communication difficulties and cross-cultural misunderstanding (Salm et. al., 2002: 51)”…”The Industrial Engineering function ,, is not carried out in a focused manner.. [with the possibilities of] ” significant improvements in productivity (passim). Poor labour relations are part of this. A detailed survey of worker attitudes found that 51.3 percent of workers felt “very negative” towards their employers, and a further 14.3 percent felt “quite negative”. Only one percent felt “very positive”. 54 percent felt that their lives had not improved at all since joining their factories, and a further 37 percent that it had improved “only a little”. “There was remarkable consensus across the different focus groups: regardless of age, employment status or gender the participants expressed fundamentally the same views… The overwhelming majority see Asian investors (their factory managers) in an extremely negative light” (Salm et al, 2002: Annex 3, 21). Although this data is sourced from detailed interviews in Lesotho, the likelihood is that they replicate the conditions in other SSA producing countries.

And other costs are high …

Manchester Trade Team (2005) compared costs along a range of factors for COMESA and China and India for an equivalent product to show the barriers faced by SSA clothing exporters. They found that:

- Export finance costs in Kenya (13 percent p.a.) and Madagascar (18 percent p.a) were much higher than in China (5.5 percent) and India (10.5 percent)

- Material costs were much higher in Kenya ($3/sq ft) and Madagascar ($4/sq. ft) than in China ($1.50/sq ft) and in India (($2.50/sq.ft)

- Transport costs to the US East Coast were lower for Kenya and Madagascar than for China ($0.29 versus $0.33 per jean) but were lowest for India ($0.23 per jean).

- The cost of machinery and of power were rather similar, but labour productivity with equivalent machines was significantly higher in China (25 pieces/day) than in India (21 p.d.), Kenya (18 p.d) and Madagascar (16 p.d).

And poor infrastructure doesn't help…

Clothing manufactures depend heavily on access to reliable infrastructure. Here SSA producers are disadvantaged compared to their Asian counterparts. In some countries water supplies, critical to successful production are intermittent. One of the clothing firms in Lesotho had to close 13 out of 23 lines temporarily in 2004 due to water shortages and another Lesotho firm also observed poor water supplies as a handicap to production, along with occasional power outages. Swazi firms also reported water shortages and power outages. In Kenya, production is often confined to EPZs precisely because of the failure of infrastructure supplies in the wider economy, and electricity costs are more than three times those in South Africa (Ikiara and Ndirangu, 2003a). The comparison with China is stark, with Kenyan firms facing frequent outages, losing significant production due to power shortages, despite having to invest in generators, and new businesses have to wait very long periods for connection to the grid (Table 2.25).

Table 2.25: Electricity supplies in Kenya and China

	Kenya	China
Freq of power outages (times last yr)	33.1	n.a.
% of production lost due to power outages	9.3	1.8
Have own generator (%)	70.0	17
No. of days to obtain an electricity connection	65.6	18.2

Source: World Bank, 2003

The weakness of the transport system, associated with bureaucratic hold-ups also leads to considerable delays and makes it almost impossible for SSA producers to produce items for higher-margins rapid-response markets, even if their capabilities were enhanced through the procurement of locally-produced fabric. Unlike Asian competitors, SSA producers have to wait around 30 days to obtain their imported inputs and a further 28-40 days to deliver product to final markets (Table 2.26). However effective production might be, perhaps halving throughput time to around 15 days, it will not be possible to make up for these structural weaknesses in the economy.

Table 2.26: Determinants of lead time – Kenya, Lesotho and Swaziland

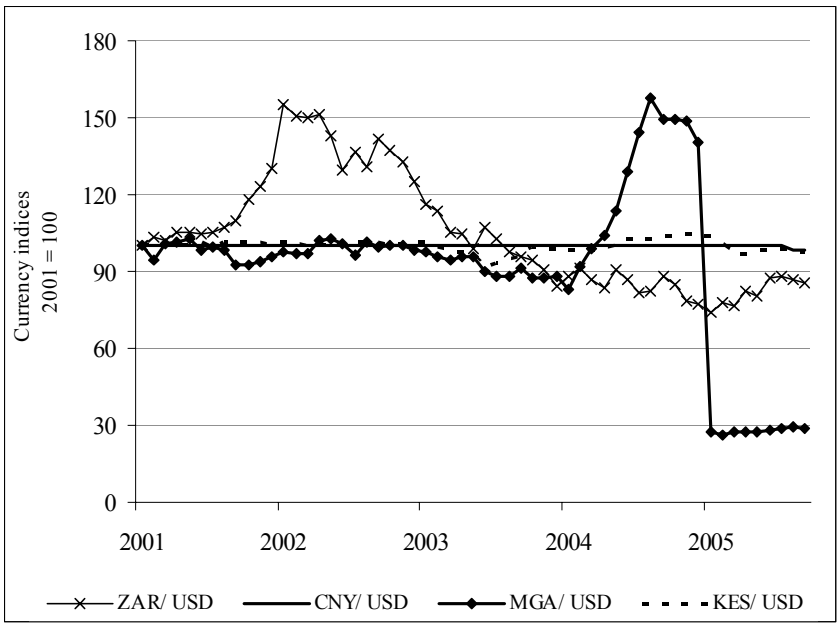
DELIVERY TYPE	KENYA	LESOTHO	SWAZILAND
Delivery of fabric from Asia (Taiwan or China)	30 days	30 days	30 days
From port to factory	7 days (Nairobi)	3 days	3~10 days
Production lead-time	30 days	25 - 30 days	25~30 days
Factory gate to port	3 days	3 day	2 days
Port to U.S.A. Port (NY)	40 days Mombassa to NY	28 days Durban to NY	28 days Durban to NY
Total delivery time	110 days	90 – 100 days	90~100 days

Source: Company interviews

Exchange rates don't help either …

Those economies liked to the South African Rand faced a further disadvantage. The Chinese remnimbi has been pegged to the US$ for some years, although in mid-2005 there was a mild revaluation of 3.5 percent. Similarly, the Kenyan shilling was pegged to the $ and neither of these economies faced adverse exchange rate movements in their sales to the US (or indeed to the EU, since the € appreciated in relation to the $). The major casualties amongst SSA AGOA economies were the three Southern African economies and Madagascar. As Figure 2.16 shows, between early 2002 and mid 2005, the Rand appreciated by more than 50 percent against the dollar, with an adverse impact on South Africa, Lesotho and Swaziland. In the case of Madagascar, an initial depreciation of currency between in the first ten months of 2004 was followed by a steep depreciation in the last quarter of 2004. Almost as damaging as the level of the Rand has been its volatility, making it difficult for firms to plan ahead with confidence.

Figure 2.16 Exchange rate against the US$ - China, Kenya, Madagascar and South Africa



Source: (https://pengva1.unjspf.org) last accessed 3 January 2005

With the exception of South Africa, the impact of currency depreciation was less severe than it seems at first sight. This is because around 40 percent of value added in the case of natural fibre products, and two-thirds of value added in the case of synthetic products comprised imported material, and whilst currency appreciation has a downside on the export side, it has an upside in reducing the costs of imports. This is another factor promoting the shift from natural to synthetic fibre products. South Africa is the exception to this since it uniquely amongst the countries studied in this Report, has no access to imported fabrics for AGOA exports.

Nevertheless SSA producer efficiency is growing…

Despite these handicaps, the evidence seems to suggest that SSA clothing and textile exporters who are able to draw on trade preferences are still largely able to compete with the best competition in the world. They also do so with the evidence of significant productivity improvement over the past year, in that export values and volumes have held up much better than employment in Kenya, Lesotho and Swaziland. Moreover, as various industry analysts have pointed out, there is considerable scope for further improvements in efficiency (Manchester Trade Team, 2005, Salm et. al, 2002). But to achieve this requires tailored and effective government support. In Lesotho, for example, the government co-financed CONMARK training scheme has led to very significant increases in operator efficiency. In the case of one factory, plant output increased by 25 percent as a result of the training scheme.

And it is possible to upgrade and diversify …

South African producers confronted by an appreciating currency and an inability to source low-cost Asian fabric have chosen from six options – exit from the market, concentration on the local market, upgrading production capabilities seeking to attain world class manufacturing operational performance, using local fabrics, focusing on higher value added fashion garments as well as using man-made synthetic fabric, and upgrading into specialised niches.

The second of these options - the local market – is not without its difficulties. A producer of underwear faced a 50 percent increase in imports in the first ten months of 2005, with a halving of its exports. Hence the domestic industry is focusing on a rapid-response capability to help its retailers to slim overall inventories and to respond flexibly to changing market tastes. This strategy currently goes hand in hand with attempts (driven by the domestic retailers) to synergise the local value chain and achieve systemic efficiency.

Closely allied to it is the third option of developing localised clusters to upgrade operational capabilities through learning networks. These are however still in their infancy and the jury is still out as to whether they will achieve the same success levels as similar initiatives in the automotive sector.

The fourth option – deeper investments in fabric production – confronts the need for nervous investors to commit large sums of money to what are perceived to be risky ventures. Our interviews with textile producers in South Africa did not identify major dynamism in this sector. This affects not just the viability of the South African industry, but the future of other SSA economies which might cope with the phased removal of the fabric derogation in 2007 by sourcing material from South Africa. Its current textile capabilities are not adequate to meet these needs and numerous firms in the region have tried to source from South Africa and found the mills to be unresponsive and high cost, with long lead times and poor quality. The attempts to synergise the domestic value chain may well turn the textile sector around and overcome these inefficiencies.

The fifth option takes advantage of AGOA's higher tariff rates for producing clothing using synthetic fabric. Swaziland has used this successfully, as has some of South Africa's exports, by vacillating between Chinese imported synthetic fabric or local South African fabric. However, despite the higher protection levels this strategy accords, its usage has been limited primarily to Swaziland. Finally the sixth option – upgrading into specialised niches - has however been more successfully pursued by some firms. One large firm began manufacturing suit linings in the 1960s, moving into industrial fabrics in the early 1970s. The industrial fabric division was developed to also cover the parachute sector, and specialised and high-tech industrial products now comprise 70 percent of output, and are targeted to reach 90 percent of sales by 2007. Significantly, this high-tech textile producer is very capital intensive in nature – labour costs are only 14 percent of costs (compared to 45 percent in the natural fibres clothing sector). Although this transition is beyond the reach of producers in other least developed SSA markets, the strategy of focusing on long-term upgrading and diversification provides an important lesson for SSA textile and clothing producers.

Even if technologically-sophisticated upgrading is difficult, there may nevertheless be scope for diversification to take advantage of emerging opportunities. For example, like South Africa, the Mauritian clothing industry was unable to take advantage of the derogation on rules of entry. It therefore targeted an AGOA exemption for yarns which are in short supply in the US, and used this to import Chinese and Italian yarn to manufacture high quality shirts for the US market. Thus comparing 2004 with 2003, dutiable exports declined by 43 percent and duty-free exports to the US increased by 17 percent (Appelbaum, 2005).

2. 5. POLICY

The strategic significance of the clothing and textile sector in SSA should not be underestimated. First for those countries such as Kenya, Lesotho, Madagascar and Swaziland which have seen major AGOA exports, this sector has been a major source of growth. Indeed in many respects it has been the primary source of growth in these economies. Second, these AGOA exports have contributed very significantly to export revenues. Third, the clothing sector in particular is labour intensive and has been an important source of job growth outside of agriculture. The nature of the skills involved – generally unskilled work for women – has had important distributional consequences and has helped to mitigate the unequalising consequences of globalisation (Kaplinsky, 2005). Finally, it is a sector which at least historically, has shown the face of industry to countries in the early stages of their growth paths, and has provided a stepping stone for the development of industrial capabilities.

As we have seen, despite the mostly gloomy prognoses, with the exception of South Africa, the AGOA clothing and textile industries generally fared well in the first ten months of the post-quota era. The reasons for this are considered in Section 4 above, and it is by learning from these determinants of success that we can identify key policy options confronting the region, and bi- and multi-lateral donors. The key policy implications are as follows:

Maintain an uneven playing field

The success of the SSA clothing and textiles sector depends on its preferential access to the US market. Whilst WTO regulations rule out quota restrictions, the degree of tariff protection which is conferred by AGOA, coupled with the ability to import fabrics from East Asia, has been very significant, with effective rates of protection ranging between 25 and 85 percent. Without this preferential market access, which is due to expire in 2015, the SSA clothing and textile industry would not survive

Lobby for an extension of the derogation on rules of entry

But even if the AGOA economies continue to benefit from preferential access to the US economy, as their industries are currently constituted they will still fail unless they have access to the derogation on the rules of entry beyond September 2007 when this is due to expire. There have been some steps to deepen the textile industry, notably in the case of the new denim mill in Lesotho in 2004 and a new knitting and dyeing mill under construction in Swaziland. But the development of a cost-effective and competitive textile industry takes time and, moreover, is unlikely to result from the simple interplay of market forces.

Given the long gestation period in capital-intensive textile investments, with the exception of denim products, it is inconceivable that AGOA economies will be able to meet the rules of entry when the fabric derogation expires in 2007. It will need to be extended and this will require a coordinated and intensive lobbying process, by individual governments, by governments working in consort, by the SSA industry and by bi- and multi-lateral agencies.

In 2005, following a process driven by Kenya, four countries – Kenya, Madagascar, Mauritius and South Africa established the African Clothing and Textiles Industry Federation (ACTIF). ACTIF has been negotiating with the US to negotiate an extension of the AGOA 3rd party rules of origin provision beyond Sep 2007 until end of AGOA (i.e. 2015). This received a favourable response but has to be put to and pass through US legislature. ACTIF has a position paper circulating in Washington and has engaged two major lobbyists to canvass Congress and Senate. ACTIF has also had discussions with the Importers of Textiles Association (ITA) on this issue.

One of the arguments which ACTIF has been pursuing has been the issue of risk reduction in global sourcing. They are arguing that buyers need an alternative to sourcing only from the Chinese (and SE Asia) region. However, this cannot be done on a country basis and has to be based on a regional platform. It recognises that the US has a number of global options – Africa, Latin America, Middle East (Turkey including), South Asia (India/Sri Lanka) – but is pushing for special consideration to be given to SSA for both geopolitical and a poverty-reducing reasons.

ACTIF believes that this lobbying has given SSA a lobbying-edge in its position to extend the AGOA derogation on fabric sourcing until 2015 and that because US retailers recognise this, this is the major reason why US buyers continue to see SSA as a viable source of clothing imports.

It is significant however, that ACTIF excludes Lesotho and Swaziland, the two economies which have managed some measure of backward integration into textiles, and who therefore do not have the same interests in the extension of the 3rd party fabric provision. This opens-up the possibility of a real divide amongst SSA clothing producers. Countries such as Lesotho and Swaziland have begun to follow the route underlying the AGOA initiative – temporary infant-industry tariff preferences to promote backward linkages. Others – Kenya, Madagascar and South Africa - have resisted this. For firms and governments this reflects a difficult balancing act between two forms of risk. On the one hand, integrate backward with heavy investments and risk losing out to more competitive Asian-based textile producers; on the other hand, fail to integrate backwards and suffer when the 3rd party fabric derogation is removed. The latter path is may be less risky since should the derogation go and Lesotho and Swazi fabric be cost competitive (and available in appropriate quantities, and infrastructure allowing), then they can source from intra-region fabric producers. Logically, the best way into this is through some form of regional cooperation, but this has not always been successful in the SSA region.

Develop the textiles sector

As is evident from the discussion on rules of entry, it is necessary to simultaneously develop programmes for the development of the textile sector. Sustained policy support, including external financial and technical support and incentives to FDI are necessary for the fabric sector to develop. There are signs of some dynamism in Lesotho, Swaziland and Madagascar, but little in Kenya. However, the nature of the AGOA rules of entry mean that whilst each country will clearly benefit from the expansion of the textile industry within its own borders, its AGOA-qualifying needs can nevertheless be met from the expansion of the textile sector within the region as a whole. Here there is a particular opportunity for South Africa, with its relatively sophisticated industrial sector and with access to large sums of domestic capital. But for it to succeed in this venture will require a significantly enhancement of competitive ambition and capabilities, both within the private sector and in government.

Devote more attention to synthetics

The nature of AGOA tariff preferences – as presently constituted – and the derogation on rules of entry provide particular incentives to products using synthetic fibres. This is both because of the higher duties which these products attract in the US, and their share of total product costs (hence enhancing the rate of effective protection). To the extent that these two characteristics of the trade regime are sustained, the opportunities provided by the production of synthetics are substantial. In general this requires a medium-term perspective, since switching product lines can take time, and can be costly. Synthetic fabrics are inherently more capital intensive to produce than are cotton fabrics. Our interviews with firms in the region did not suggest that they had fully taken on board the potential offered by this shift ion product portfolio.

Enhance competitiveness

Comparative studies (for example, the 2004 ITC study and the 2005 Manchester Trade Team study) show that China's competitive advantage cannot be reduced to a weak currency or low wages. Both of these factors are important, but are overwhelmed by the relative impact of generally superior total factor productivity in Chinese enterprises. Much of this superior productivity arises from investments in new technology (for example, shuttleless looms), but factory organisation and skill development play a very important role.

We know from other sectors that particularly in the early stages of industry development, it is the investments in process and training which provide the major competitive advances. These are generally incremental in nature and are significantly aided by structured and inter-related processes of benchmarking and continuous improvement. South African firms possess major capabilities in this area, as do specialised global clothing sector service providers. This constitutes an immediate and high-impact route to enhancing competitiveness in the region, and is greatly facilitated by government incentive schemes. However it depends on the active cooperation of the private sector and given its foreign ownership in much of the region, this has important process implications in the design and delivery of policy support to the sector.

Infrastructure (including policy infrastructure)

One of the primary competitive benefits of Chinese industry is the efficiency with which the infrastructure functions. This includes not just physical infrastructure such as roads, water and power, but also bureaucratic infrastructure such as port clearance, enterprise set-up and the delivery of appropriate certification. Many of the AGOA economies are fully aware of this. Yet in most cases policy response is cumbersome, and action is slow. Amongst the countries we visited we found that enterprises in Lesotho were most favourably disposed towards the government support which they received. They felt that they had ready access, and an open ear in government. Not all of their problems were solved (for example, water shortages), but the general response from government was conducive to enhanced investments, such as the new $100m denim mill.

In conclusion

There is thus clearly much that government (and bi- and multilateral aid agencies) can do to facilitate the continued growth of the clothing and textiles sector in SSA. It requires a joined-up approach – between firms in value chains, between governments and the private sector and the trades unions, between different governments, in regional industry associations and in backing support from bi- and multi-lateral agencies.

Whilst all the policy conclusions listed above are important, two stand out in significance. First, there needs to be an industry- and region-wide campaign, backed by bi- and multi-lateral agencies to maintain both the preferential duty access of AGOA exporters and an extension of the rules of origin derogation. This will require sophisticated and costly lobbying in the US political system, including the use of public opinion. And, second, SSA needs to get its competitive act together. Much can be done to enhance competitive performance in the clothing and textiles sector by structured programmes of benchmarking and continuous improvement, and more detailed and region-wide incentives need to be developed to encourage the deepening of investments in the textile sector.

2. 6. SOME IMPORTANT CAVEATS

As observed in the Executive Summary, by design this has been a pilot study, designed to explore the emerging threats posed to SSA manufacturing by China and other Asian economies, and to develop appropriate methodologies to explore these issues.

Although we conducted more than 50 interviews with key industry informants, there are three primary limitations to our methodology. First and foremost, we interviewed buyers in the US to determine their perspectives on future sourcing from the SSA region. During the course of our interviews with producers, it became clear that the key sourcing decisions are not being made in the US, even though this is where the final markets are to be found. In general, US buyers hand over sourcing responsibility to Asian-based buying houses and manufacturing houses. They provide the key to determining the extent to which SSA will remain a future source of supply to the US market.

Second, although there is much evidence of differential competitive performance amongst enterprises, the pilot-nature of our work did not provide us with the opportunity to effectively benchmark firm-level performance. This benchmarking provides the key to continuous improvement (*kaizen*), and to the development of dynamic capabilities in the region.

Third, again a function of the pilot-nature of this Report, we do not throw any light on the role of ownership in the differential performance of individual firms and countries. In Kenya, Sri Lankan owned firms were notably more optimistic than Taiwanese owned firms. In Lesotho, Taiwanese firms are the dominant and dynamic participants in the clothing sector, and have been the major source of major investment in the textile sector in the region. They have a presence in the region because of its recognition in the Apartheid era of Taiwan rather than communist China. They also probably have less access to production networks in China than does FDI emanating from other regions of the world. To what extent does this explain the resilience of Lesotho's clothing industry in the context of currency appreciation, and what wider policy lessons can be learned in attracting FDI into the region, and dealing with existing foreign investors?

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PART 3

HOW WILL SSA'S WOODEN FURNITURE INDUSTRY SURVIVE COMPETITION FROM THE ASIAN DRIVERS?

3.1. BACKGROUND

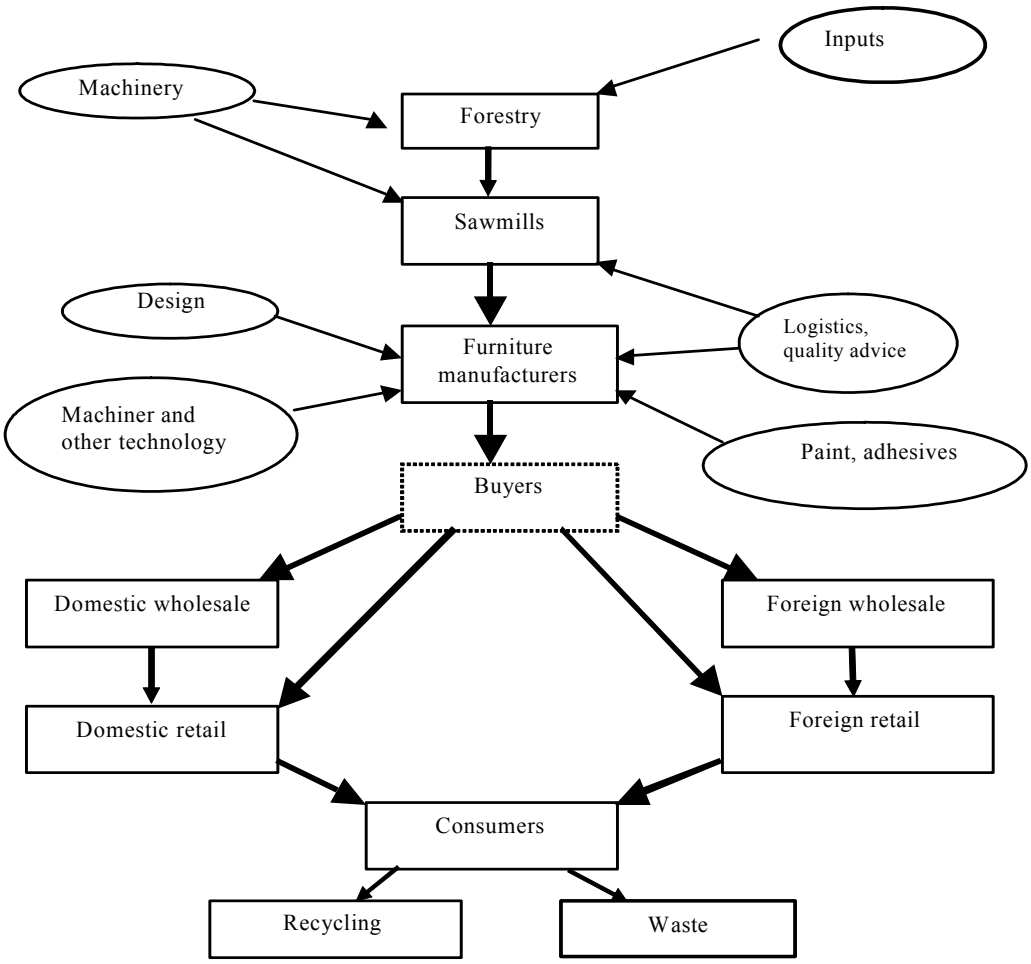
Why is furniture important?

The wood furniture value chain has the potential to play an important role in promoting growth and alleviating poverty in SSA. As will be seen below, it is a large and rapidly-globalising sector. There is scope for labour-intensive production, but at the same time, the ability to mechanise production and innovate new products lays out a path for upgrading and innovation over time. This not only supports growing producer incomes in the furniture value chain, but also acts as an example to other sectors. It is also a resource -intensive sector. This provides opportunities for many SSA countries where timber grows rapidly and cheaply and helps to facilitate productive linkages between industry and agriculture and urban and rural areas. Consequently, like the clothing sector, the furniture industry has been one of the primary stepping stones used by industrialising economies in promoting growth and diversifying economic structures. It is potentially a key industry in SSA's future development.

The wood furniture value chain

Figure 3.1 maps the broad features of the wood furniture value chain. Raw materials such as seed inputs, chemicals, equipment and water feed into the forestry sector. Wood flows to the sawmills, and sawn timber and intermediate wood products move to the furniture manufacturers who, in turn, obtain inputs from the machinery, textiles, plastics, adhesives and paint industries. The furniture industry also draws on logistical, design and branding skills from the service sector. Depending on which market is served, the furniture then passes through various intermediary buying stages until it reaches the final customer. (The buying function is represented by a dotted box in this Figure in order to emphasise that several organisation types including wholesalers, retailers and independent buyers can manage this function). And finally, customers will either recycle or dispose of the furniture.

Figure 3.1: Wood furniture value system



Factors contributing to the globalization of the wood furniture value chain

The wood furniture value chain is an increasingly global industry. Seen from the buyer-end of this chain, four distinct globalising strategies can be observed. The first of these are firms who have little or no involvement in production or in the organisation and coordination of global production networks. They are satisfied to buy furniture either directly from producers in arms-length relationships, or to work through specialised buying firms. They comprise independent furniture stores, many of which are small or medium-sized and which serve local sub-national markets. The second category are the much larger national or international firms which make extensive use of marketing and brand names and purchase directly from suppliers, often providing assistance with upgrading and the sourcing of inputs. Examples of these TNCs are IKEA and B&Q. Third are manufacturing firms in the importing country who buy-in semi-finished components. This has become, for example, a major element in the burgeoning furniture trade in rubber-wood products between Thailand and Japan (Mitsuhashi, 2006) and is referred to as “production sharing’. Finally, there are the manufacturing firms in the importing countries which have established subsidiaries in low-income economies, such as Steinhoff of Germany expanding production in Poland, Ukraine and South Africa.

Underlying this fragmenting global division of labour in this chain has been a series of changes in technology and organisation. The major components of these technological advances reflect the transfer of practices from other industries and include:[11]

- Computer-numerically-controlled (CNC) wood working machinery enhances productivity, reduce waste, improve time-to-market and facilitate modular production of non-standardised items.

- Computer-aided design and manufacturing (CAD/ CAM) allows designs to be fed from designers to manufacturing firms (anywhere in the world) with significant improvements in quality and productivity.

- The introduction of flat-pack or RTA (ready-to-assemble) furniture led to an important change to furniture production methods. RTA designed furniture, with standard shapes and sizes and high volume demand, led factories to take advantage of *design for manufacturing* processes. It also dramatically cut the transport costs of shipping bulky products.

- The development of flat-pack furniture was critically dependent on advances in material technology, such as MDF (multi-density fibre) which, in addition to using off-cuts and "waste", makes for the optimal use of forestry products.

- Flexible manufacturing systems (FMS) and cellular plant layout improve the flow of furniture parts efficiently through the plant, enhancing flexibility and quality, and reducing inventories and costs

- Made-to order and just-in-time distribution systems reduce inventory levels of raw material inputs and finished but-not-sold items

These technological and organisational innovations have allowed for the growing globalisation of this sector. It has enabled producers in high wage economies to significantly reduce their costs, such that the share of wage in company sales in European manufacturing firms fell from around 50 percent in the 1960s to 28 percent in the mid 1990s (European Commission, 1997). But, simultaneously, it has also provided a role for low-income and resource-intensive economies to become increasingly active participants in the global chain.

Another factor facilitating the globalisation of this chain has been the growth of concentrated buying power in final markets. This is part of a much larger phenomenon, spanning many sectors of final consumption, including as we saw in Part 2, the clothing sector (Feenstra and Hamilton, 2005; Kaplinsky, 2005). For example, in Germany although there are more than 15,000 furniture stores employing more than 110,000 people, the buying groups (Einkaufsverbände) and their affiliates control 60 percent of the market. The majority of retailers and manufacturers are connected with these groups. Similar buyer concentration

11 Company interviews and industry reports. See Spalding, 2001 and European Commission, 1997.

occur in many other countries, including the UK where retail multiples control 40 percent of the furniture market.

Global trade in furniture intensifies

These evolving corporate strategies, changes in technology and increasingly concentrated buying structures have led to the rapid globalisation of the wood furniture value chain. At the 3-digit SITC level, in 2002 the furniture industry was the 16th largest out of 141 traded manufacturing product groups (SITC 5 to 8 excluding SITC 68), with a total value of global trade of manufactures of $66.1bn. (www.unctad.org, last accessed on 20 June 2005). It was the largest traditional, low-technology traded sector in 2002, exceeding the value of trade in the footwear industry ($43.6 bn.) and the toys and sporting goods industry ($49.8 bn). The growth of world trade between 1993 and 2002 in the furniture sector (94 percent) exceeded that for all world trade of manufactures (75 percent), as well as that of toys and sporting goods (52 percent) and footwear (26 percent).

Although furniture is a resource and labour-intensive product, it is striking that the major exporting countries are the industrially advanced economies. As can be seen from Table 3.1, of the 20 largest exporters, only five (China, Mexico, Indonesia Malaysia and Thailand) are low-wage economies and two (Poland and the Czech Republic) are transitional economies. However, given that emerging, transitional and developing countries tend to be small importers of furniture, their participation in the group of the largest *net exporters* is much more significant - only five advanced industrial countries (Italy, Canada, Denmark, Spain and Sweden) of the top 20 gross exporting countries are also positive net exporters. Italy is by some distance the largest gross and net exporter of furniture.

Table 3.1 also shows the very rapid growth of furniture exports by low-income economies. Between 1993 and 2002, China's exports increased by 6.2 times, Mexico by a factor of 5.3, Poland by 5, Malaysia by 2.6 and, Indonesia by 2.3.. Although to some extent these very high growth rates are a result of low export volumes in 1993, these results highlight that these countries have become leading global exporters of furniture. It is also striking that, other than Canada, all of the major dynamic furniture exporters are low-income or transitional economies.

Table 3.1: Value of global furniture trade (SITC 821): the leading 20 exporting countries, 1993 and 2002

$ thousands

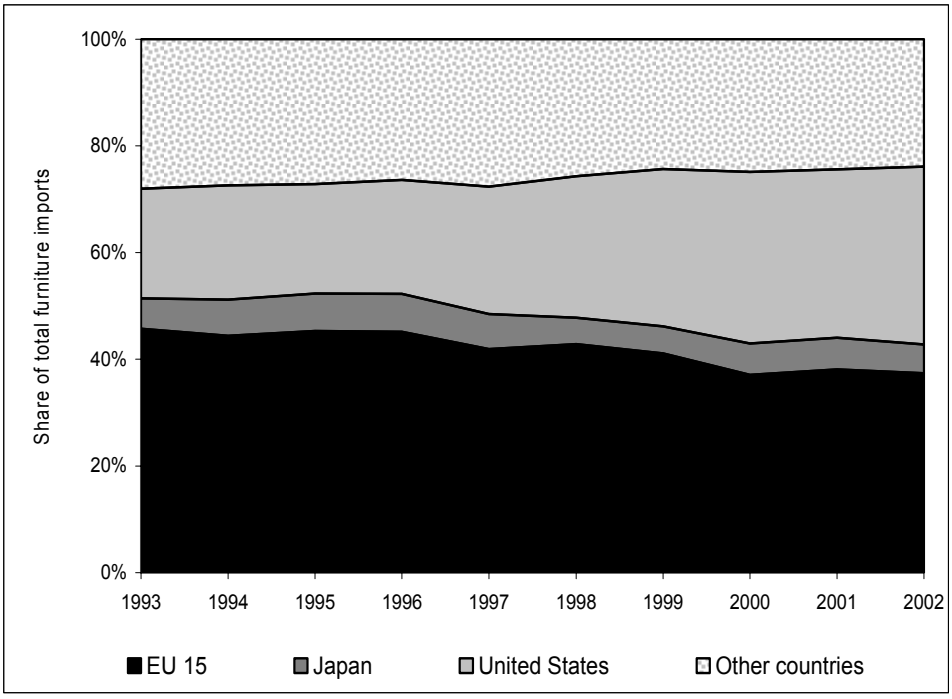
	Gross exports 1993	Gross exports 2002	Per cent change	Net exports 2002
Italy	5,797,350	8,885,963	53%	7,792,247
China	1,080,566	6,696,259	520%	6,377,748
Germany	3,758,009	5,384,098	43%	-1,342,364
Canada	1,672,760	4,795,399	187%	1,694,281
USA	3,027,889	4,703,943	55%	-18,889,234
Mexico	649,941	3,409,381	425%	2,267,533
Poland	580,978	2,893,334	398%	2,452,535
France	1,648,592	2,355,577	43%	-1,706,937
Denmark	1,589,971	2,057,728	29%	1,323,356
Bel.-Lux.	1,409,314	1,817,374	29%	-361,084
Indonesia	675,588	1,519,572	125%	1,500,561
Spain	548,801	1,502,148	174%	313,670
Malaysia	564,853	1,489,940	164%	1,310,355
UK	904,498	1,350,189	49%	-3,322,389
Austria	650,646	1,278,178	96%	-152,753
Sweden	825,930	1,269,427	54%	154,205
China,(Taiwan)	1,833,173	1,198,911	-35%	952,679
China, (Hong Kong)	563,632	1,141,647	103%	-159,480
Czech Republic	191,733	1,102,751	475%	686,169
Thailand	593,849	914,334	54%	840,290
Other countries	5,447,541	10,240,568	88%	-6,469,599
World	34,041,110	66,086,250	94%	

Source: Calculated from UNCTAD, 2005 (www.unctad.org last accessed on 21 June 2005)

Furniture imports have increased in most high-income countries, with the value of global trade almost doubling between 1993 and 2002 (Table 3.1). As we illustrate below, prices during this period fell sharply (Table 3.3 and Figure 3.2). This pervasive fall in global prices of furniture has clearly benefited consumers in trade-liberalising economies who have access to cheaper, better quality and more varied products. Consumers in the USA have particularly taken advantage of low priced imports: the share of the USA in global imports rose from 21 to 33 percent between 1993 and 2002, whilst that of the EU fell from 46 to 37 percent in the same period (Figure 3.3.).[12]

12 EU imports include EU-extra and EU-intra trade

Figure 3.2. Share of global furniture imports (SITC 821), 1993 -2002



Source: Calculated from UNCTAD, 2005 (www. unctad.org last accessed on 6 July 2005)

Intermediate products such as wood-based panels consisting of veneer sheets, plywood, particle board, hardboard, MDF (medium-density fibreboard), compressed fibreboard and insulating board also experienced rapid growth during this period. Global exports of these wood-based panels were $17.7 billion in 2002, an increase of 34 percent since 1993 (Table 3.2). Although some low-income economies have seen export growth (notably Poland and China), the stellar performers tended to be high-income economies (Canada, Germany, Austria). In some cases low-income economies have seen a fall or stagnation in the value of the export of these intermediate product; for example, Indonesia and Malaysia, saw their market share decline by 22 percent and 2 percent respectively while Brazil's share remained unchanged during the 1993 to 2002 period.

Table 3.2: Leading 20 producers of wood-based panels by value and market share, 1993 and 2002

	Value ($,000)			Market share		
	1993	**2002**	**Per cent change**	**1993**	**2002**	**Per cent change**
Canada	909,457	2,404,937	164%	7%	14%	7%
Germany	675,461	2,010,540	198%	5%	11%	6%
Indonesia	4,311,515	1,818,219	-58%	33%	10%	-22%
Malaysia	1,354,653	1,404,271	4%	10%	8%	-2%
USA	921,886	927,617	1%	7%	5%	-2%
China	402,129	873,705	117%	3%	5%	2%
Austria	370,789	801,994	116%	3%	5%	2%
Bel.- Lux.	492,481	791,527	61%	4%	4%	1%
France	434,985	680,916	57%	3%	4%	1%
Finland	441,835	621,260	41%	3%	4%	0%
Brazil	433,823	501,601	16%	3%	3%	0%
Italy	308,599	450,126	46%	2%	3%	0%
Poland	55,739	392,700	605%	0%	2%	2%
Spain	193,574	371,465	92%	1%	2%	1%
Russian Federation	180,270	335,352	86%	1%	2%	1%
New Zealand	160,615	280,320	75%	1%	2%	0%
Switzerland	163,750	210,522	29%	1%	1%	0%
Ireland	57,823	165,759	187%	0%	1%	0%
Chile	61,429	164,886	168%	0%	1%	0%
Portugal	122,653	158,110	29%	1%	1%	0%
Other countries	1,172,470	2,348,463	100%	9%	13%	4%
World	13,225,936	17,714,290	34%			

Source: Calculated from FAOSTAT data, 2005 (www.fao.org last accessed on 21 June 2005)

Price trends in the global wood furniture value chain

In the measurement of unit price performance in the furniture industry, we draw on the data for EU imports. This is because the EU is the major destination for extra-continental furniture exports from SSA. Since the EU accounts for more than one-third of global imports, it is a reasonable surrogate for global price performance and for assessing the future export prospects of the SSA furniture industry.

Over the 1990s, there were a number of significant trends in the unit prices of furniture imported into the EU (Figure 3.3 and Table 3.3)[13]:

- For the industry as a whole, there was a pervasive trend towards a decline in unit prices, of 36 percent between 1989 and 2001.

13. Unit prices are calculated as a two year moving average to even out possible currency fluctuations. This means that "1989" is an average of 1988 and 1989 unit prices and "2001" is an average of 2000 and 2001 unit prices.

- The growing globalisation of the furniture industry meant that there was a tendency for a "world price" to emerge that is for a growing convergence in the price of products originating from different types of economies. (In eight of the eleven product categories, the standard deviation of prices - measured as average unit prices of different exporting economies - fell between 1989 and 2001),

- There were sub-sector variations: the largest fall in unit price was for upholstered wooden seats, wooden office furniture (= < 80 cm. in height) and wooden dining and living room furniture (40 percent, 39 percent and 37 percent respectively).

- There was a growing dispersion in global sourcing. The number of countries with at least one percent market share of one of the 11 imported product markets increased from 28 in 1989 to 48 in 2001.

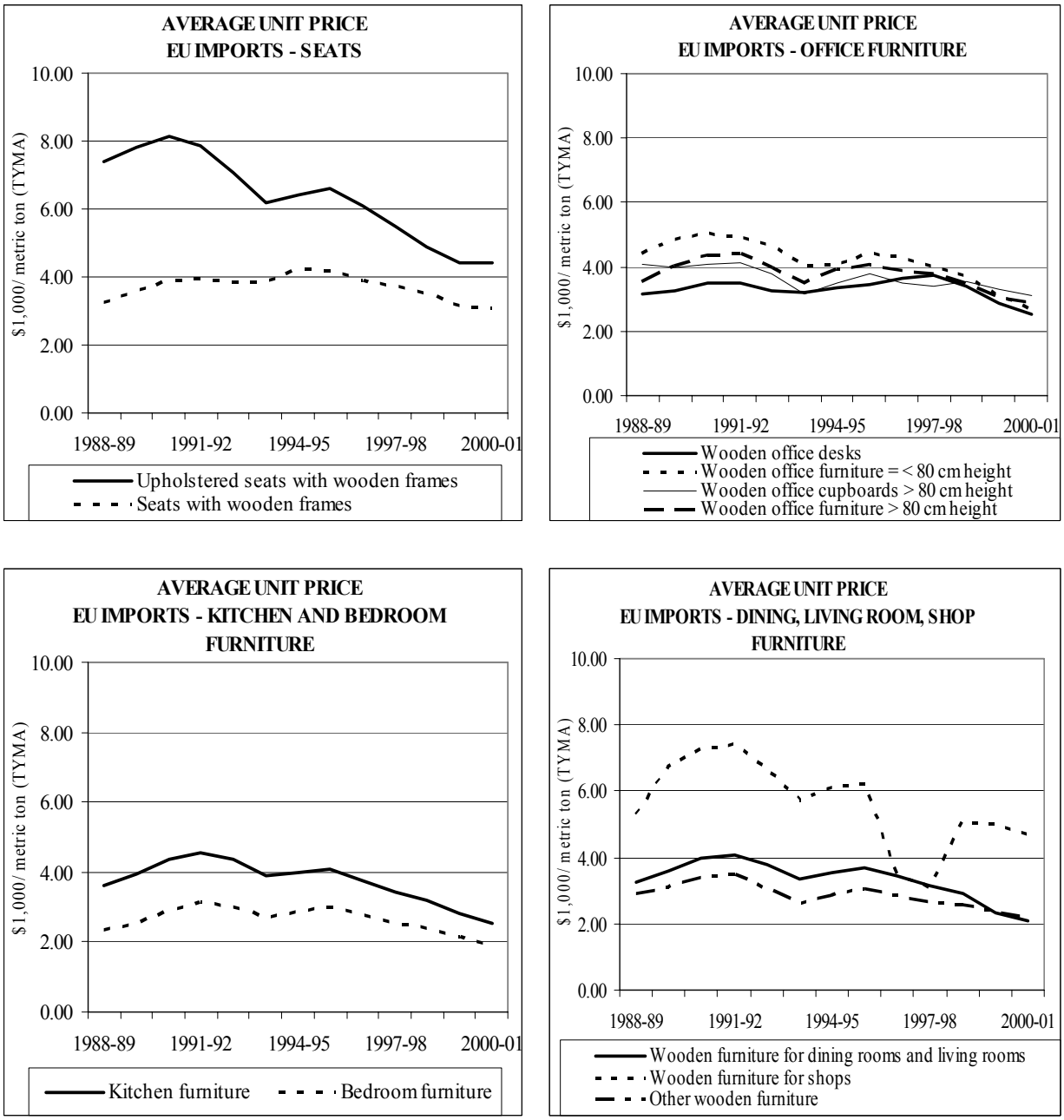
- The total number of low-wage countries with at least one percent market share in one of the 11 imported product markets more than doubled during this period from 11 countries in 1989 to 28 countries in 2001.

Table 3.3: Average unit prices (two-year moving averages) and the number of countries holding 1% of market share of wood furniture imports to the EU, 1989 and 2001

	Average unit price ($1,000/ metric ton)		Average unit price (per. change)	Unit price standard deviation		Total no. of country exporters		No. of low-wage country exporters	
	1989	2001	1989-01	1989	2001	1989	2001	1989	2001
Kitchen furniture	3.63	2.51	-31%	4.26	1.83	15	14	2	4
Bedroom furniture	2.34	1.94	-17%	2.36	1.74	18	25	6	11
Upholstered seats with wooden frames	7.38	4.42	-40%	4.03	3.16	19	26	6	12
Seats with wooden frames	3.26	3.06	-6%	2.77	4.44	24	31	10	18
Wooden office desks	3.13	2.51	-20%	4.23	2.16	19	19	5	6
Wooden office furniture (=< 80 cm.)	4.41	2.68	-39%	3.84	2.41	19	25	3	7
Wooden office cupboards (>80 cm.)	4.09	3.09	-24%	1.76	1.90	14	18	1	6
Wooden office furniture (> 80 cm. ex. cupboards)	3.52	2.88	-18%	2.48	2.50	17	20	2	4
Wooden furniture (dining/ and living room)	3.26	2.07	-37%	3.32	1.99	20	35	6	18
Wooden furniture (shops)	5.31	4.73	-11%	2.51	4.64	14	23	1	7
Other wooden furniture	2.90	2.19	-25%	2.47	2.44	23	31	8	16
All wooden furniture (aggregate)	2.72	2.17	-36%			28	48	11	28

Source: Calculated from Eurostat COMEXT data base

Figure 3.3: Unit price (two-year moving averages) trends for wood furniture imports to the EU, 1989 -2001



Source: Calculated from Eurostat COMEXT data base

The demand for timber and the growth of environmental concerns

Both for reasons of maintaining biodiversity and because of concerns with carbon depletion, the global wood furniture industry has increasingly had to deal with the problems of the regulation of logging. The primary concerns relate to the depletion of hardwoods, and this has led to two major responses. The first has been the growth of certification schemes such as the FSC (Forestry Stewardship Council) which regulates not only the need to replant cut timber, but also the

procedures used in logging and the rights of indigenous peoples. The second response to these environmental concerns has been the search for substitutes for hardwoods, such as rubberwood (predominantly from Thailand and Malaysia) (Mitsuhashi, 2006), and eucalyptus/saligna from Brazil and South Africa (Kaplinsky, Morris and Readman, 2001).

As a consequence of these developments, there have been significant changes in the type of timber used in the global furniture industry[14]:

- Hardwood production is shifting from Asia to Latin America, with Asia's share forecasted to fall from 60 percent to 10 percent in 2000.

- In terms of volume, the tropical timbers most in demand are lighter hardwoods such as lauan, meranti and seraya from Indonesia, Malaysia and the Philippines, and increasingly rubberwood and saligna

- Over the last decade rubber wood, a tropical timber, has gained strong markets as a material for furniture production and saligna is also gaining ground rapidly

- There has been an Increasing use of logs of smaller dimensions (e.g., rubberwood, melina, acacia, saligna, teak and pine) from fast-growing plantations.

- As teak obtained from natural stands have become more scarce in Myanmar, the key Asian producer country, more producers are turning to plantation-grown teak, if end-use specifications allow it.

- New bio-composite boards — extracted from oil palm residues, coconut shells or flattened bamboo — are being developed to help overcome the raw material shortages.

These developments illustrate an industry in the process of global reconfiguration – the rapid growth of exports of labour-intensive final products, often incorporating capital and technology-intensive intermediates imported from high-income economies. It is also an industry that is experiencing intense competition with new entrants and escalating price pressure, and subject to growing concerns and regulation on the environmental implications of logging and deforestation. It is an industry also where China is showing a growing presence, both with respect to final products and in relation to intermediate products.

3. 2. THE CHINESE AND SSA FURNITURE INDUSTRIES

Data on the SSA furniture industry is very poor. The overwhelming bulk of the continent's production occurs in informal sector workshops, using a combination of locally-sourced timber, offcuts and timber supplies from the formal sector which are largely cut to meet the needs of the construction industry. These workshops target the domestic market for middle, and especially lower-middle and low-income consumers. Designs are unsophisticated, but often incorporate

[14] International Trade Forum - Issue 2/2001

ingenious use of local materials (such as tyre-offcuts for springs). With the exception of a very small craft segment, this informal sector has no presence in export markets.

The major SSA furniture exporters are South Africa, the Ivory Coast (before the recent political turmoil) and Ghana. However, SSA's main role in the global wood furniture *value chain* (as opposed to the furniture sector) is as a provider of timber to other producers, often at the cost of its own furniture sector (see below). In the context of the global economy, SSA's furniture industry can therefore be characterised as an industry with potential, rather than one with a discrete presence.

Although no data is available, SSA's share of global furniture exports is miniscule. South Africa, overwhelmingly the largest exporter, had wooden furniture exports of less than $60m in 2004 (NPI, 2005), and even at its peak, Ghana's furniture exports were less than $14m in 2001. This compares with global exports of $66bn in 2002. So, even with the most generous assumption that total exports are in the region of $100m, SSA's share of global furniture exports were somewhat less than 1.5 percent in 2002. Since then, furniture exports from the largest exporter (South Africa) have fallen (see below), and global trade continues to grow, so that the current share of SSA in global markets is probably around one percent. As can be seen from Part 2 of this Report, this is much lower than its share of global clothing and textiles exports. This is because unlike the clothing sector where tariffs into the US and the EU are high (between 16.6 and 32.2 percent), in the furniture sector tariffs are relatively low (Table 3.4). The real measure of this disparity between clothing and textiles and furniture is concerned is not to be found in the comparison of nominal rates of protection in the US and Europe. This is because the furniture industry uses domestic inputs, and there is little difference between the derived nominal and "effective rates of subsidy" provided to SSA producers by these tariff preferences. By contrast, the clothing and textiles sectors make extensive use of imported inputs, so that nominal rates of subsidy are much higher than effective rates of subsidy. In other words, in the furniture sector, SSA competes ineffectively on a much less uneven playing field, which is not adequately sloped in its favour.

Table 3.4: Tariffs on furniture in major importing regions, 2005

HS Number	USA	EU	Japan	Canada	Australia
9401 Logs	0	0-5.6%	0-3.8%	0-15.5%	0-10%
9403 Timber	0	0-5.6%	0	0-9.5%	5%
9404 Furniture	0-12.8%	3.7%	3.2-3.8%	8-15.5%	0- 7.5%

Source: World Tariff Online[15]

Compare this SSA continental performance with the dynamism of China's furniture industry. The Chinese furniture industry consists of around 50,000 companies and 5 million employees (CNFA 2003). Most of these companies are small- to medium-sized operations with annual sales less than $36 million ($U.S.) (or CNY ¥300 million). 90 percent of the companies are privately owned, stock-

[15] http://www.tdctrade.com/main/industries/t2_2_15.htm (accessed on 09/01/06)

holding companies, as well as various joint ventures (Xu 2004a)[16]. Taiwanese "triangular manufacturers" have helped revolutionise local furniture-making sectors with state-of-the-art manufacturing facilities and modern business concepts (Wall Street Journal 2004; Lei and Mcgowin, 2002). It is estimated that Taiwanese companies are contributing 75 percent of the furniture export shipments from China (CNFA 2003).

Between 1995 and 2002, Chinese furniture production grew in value from $6.8 to $20bn (Table 3.5), a compound annual growth rate of 17 percent. In the same period, exports grew from $1.1bn to $5.3bn, a compound annual growth rate of 27 percent. The export ratio increased from 16 to 26.5 percent. Imports of furniture were negligible and showed little growth. Double digit annual growth is expected during this decade (Sun and Bean, 2001), driven both by export markets and increases in domestic furniture consumption[17].

Table 3.5: Chinese Furniture Industry (US$bn)

	1995	2000	2002	Compound annual growth rate 1995–2000	Compound annual growth rate 2000–2002
Furniture production	6.78	12.74	19.95	13%	25%
Furniture exports	1.10	3.65	5.30	27%	21%
Furniture imports	0.08	0.10	0.10	5%	0%
Apparent domestic consumption of furniture	5.76	9.19	14.75	10%	27%

Source: Elaboration of CSIL data (Anon, 2001) and CNFA data (Anon, 2003), cited in Robb and Bin Xie (2003)

In order to fuel this boom in production, Chinese forest products imports are growing quickly, rising from $6.4 billion in 1997 to $11.2 billion in 2002 (Sun et al. 2004). As the world's second-largest wood products importer behind the United States, China imported 106.7m cubic metres in round wood equivalent (RWE) volume of wood products in 2003, more than double the 40.2m cubic metres of 1997. Russia, Malaysia, Indonesia, New Zealand, and Thailand are the top five timber suppliers to the Chinese market. Much of these timber imports run against international conservations agreements and are illegal, both in the exporting economies and in China (Watts, 2005). It is forecasted that by 2010, domestic Chinese wood supplies will be 114m cubic metres, creating a shortfall of 99m cubic metres that needs to be filled by imports (Lague 2003). The furniture-making sector will account for at least 18 percent of the country's total wood consumption by 2010 (Xu, 2004; China National Furniture Association, 2004).

16 Xiaozhi Cao, Hansen, Meiqi Xu and Boming Xu (2004)

17 Robb and Bin Xie (2003)

3. 3. A CASE STUDY OF THE GARDEN FURNITURE INDUSTRIES IN SOUTH AFRICA AND GHANA

Bearing in mind that this is a limited pilot project which identifies the emerging impact of China on SSA manufacturing exports, we focus on interviews with key informants in a particular segment of the wood furniture industry, that is, the garden furniture sector. We chose this sector since it represents the major wood furniture export from Ghana. Here we interviewed key informants which included:

- Major global buyers of garden furniture
- Producers of garden furniture in Ghana and South Africa
- Producers of non-garden furniture in Ghana
- Furniture retailers in Ghana.
- Government officials and other key informants in both countries

Although a restrictive sample in terms of numbers (especially in South Africa), these interviews identify important emerging trends.

What do global buyers of garden furniture think about future trends in global sourcing?

A group of fifteen firms exhibiting garden furniture, at GLEE 2005, the international garden and leisure exhibition at Birmingham were interviewed between the 18th and 20th September 2005. They ranged in size from small family business to large scale firms. All of these firms specialised in the import of garden furniture, predominantly for the UK market, but also for the continental European market. Most of this furniture was made from hardwoods. Some of the firms had product ranges covering wood and non-wood products, and all offered accessories such as cushions and parasols as part of their service.

The major source of furniture imports was Indonesia, followed by China. Indonesia benefits from indigenous sources of certified teak, and most of the importers had long-standing relationships with Indonesian suppliers, ranging from three to 15 years. Unlike China where they had no contact with manufacturers themselves and purchased through third parties, there are generally direct links to Indonesian producers, who were visited on a frequent basis. Indonesian firms posses both the required technology and the skills. However, unlike the clothing and textile sector (see Part 2 above), importers paid little attention to labour standards and were much more focused on the use of certified timber.

Notwithstanding Indonesia's overall dominance as a supplier, China is a rapidly-growing source of supply based in part on the use of hardwoods procured from West Africa, and substitute hardwoods such as rubberwood obtained from Malaysia. China's particular strength lies in products combining different types of materials (for example, aluminium and wood) and cushions and parasols. Importers are concerned that some of China's furniture exports use uncertified illegal timber sourced from Myanmar and this is one factor holding back the rapid progress of China as a source of supply. One advantage which China clearly holds is its flexibility as a suppler and also its design capabilities.

Whilst Indonesia and China dominate this sector, other suppliers are also important, notably Poland (a niche provider of hand-made oak swings), Sweden (low-cost softwood pine furniture), and Thailand and Vietnam. None of these 15 importers either sourced from SSA or considered it likely that they would do so in the future, notwithstanding the fact that much of China's garden furniture was made from timber sourced from West Africa.

In addition to these importers, we interviewed the largest importer of Ghanaian garden furniture into Europe, using iroko a teak-like hardwood. It also sources hardwood furniture from China, Vietnam and Indonesia, softwood pine furniture from Poland and contemporary furniture (a hybrid wood and metal product series) from Central and Eastern Europe. Products are designed for the high-income niche market and are sold into both UK and continental EU markets.

This importer has had a long-term relationship with Ghana's major exporter of garden furniture, accounting at its peak for more than two-thirds of the Ghanaian firm's exports. In the past it held a share of equity in the Ghanaian furniture manufacturing plant and a linked sawmill. Its link with the Ghanaian exporter began in the 1980s when it acted as a buyer for UK retailers. In 1992, the company developed a product line of garden furniture under its own brandname. Crucially, it rather than the Ghanaian producer was responsible for designing the products sold under this brandname.

Despite the co-evolution of the UK and Ghanaian firms, and the link in equity, the UK-based importer gradually began to diversify its sourcing after the late 1990s. By 2001, only 56 percent of its furniture was sourced from Ghana, and this dropped further to 35 percent in 2005. Its imports from Ghana now account for over 95 percent of Ghanaian wood furniture exports. It is expected that the absolute value of orders from Ghana will remain constant, but market growth for garden furniture will be met from its other primary suppliers, China and Vietnam. It used to source from South Africa, but with the strengthening of the Rand (Part 2, Figure 2.16 above), South Africa has been dropped as a source of supply.

The major reason for diverting imports from Ghana to China and Vietnam is cost. The price of furniture from Asia is between 24 and 40 percent lower than similar products from Ghana. South African costs are 20 percent higher than those of Ghana (Table 3.6).

Table 3.6: Price of a similar piece of garden furniture from selected countries, 2005

	Average price	Price index
Ghana	£50	100%
South Africa	£60	120%
China	£30	60%
Vietnam	£38	76%

Source: Company interview

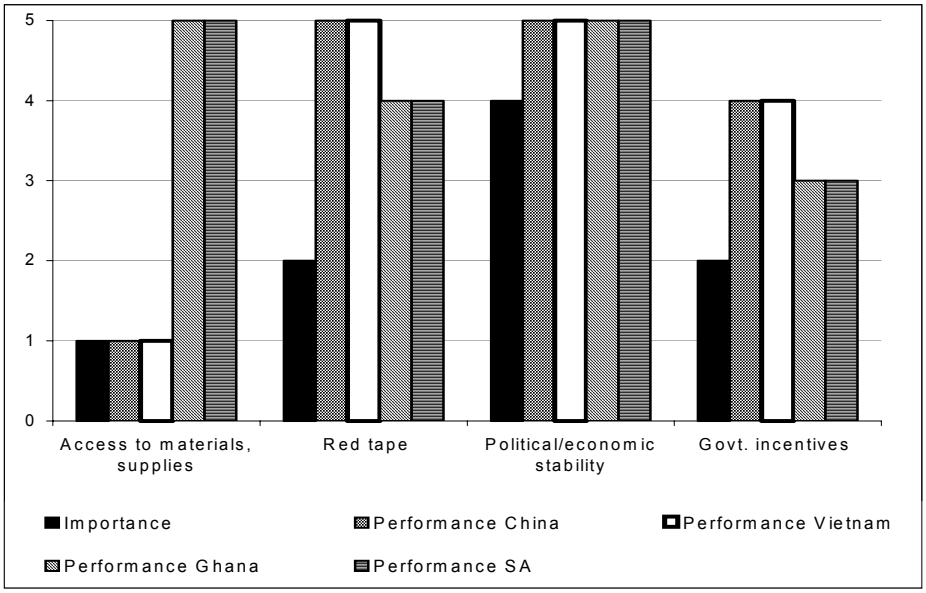
Delivery times work in Ghana's favour with an average shipping time of 18 days (from the date of placing an order to reaching an UK port). Shipments from China and Vietnam take 28 days and 22 days for South Africa. However, speed of

delivery is much less important than on-time delivery. Ghana has no advantage over China in this respect.

We asked this UK importer to rank the importance to their sourcing decision of national condition factors. We also asked the company to compare the national conditions of Ghana, China, Vietnam and South Africa. The results are presented in Figure 3.4. China, and to a lesser extent Vietnam, import raw wood for production but access to material does not have any influence on sourcing decision of the buyers. Red tape is an important issue but local governments do not hinder the shipping of goods. Although there is differential performance between these supplying countries (with China and Vietnam generally being seen as more desirable locations), all of these four countries meet the firm's minimum expectations.

Figure 3.4. Buyer's views on national conditions

Importance scale (1=not important; 5=critical)
Performance scale (1=poor; 5=excellent)

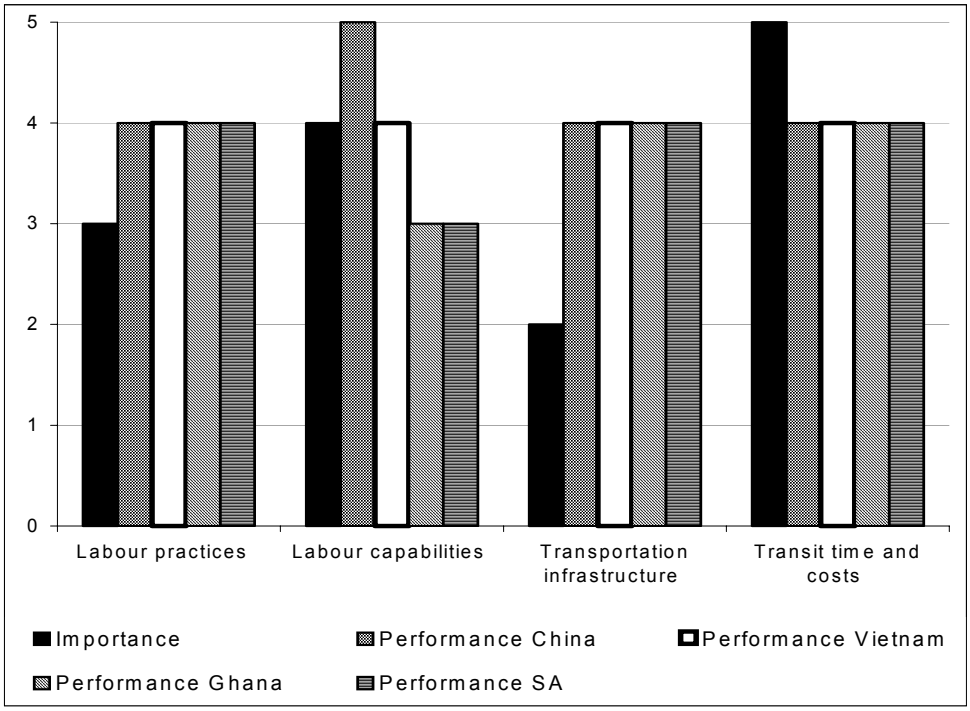


Source: Company interview

We also asked the UK buyer to rank the importance of physical infrastructure and human capital factors and to evaluate the performance of suppliers. Figure 3.5 shows that the buyer considers the labour capabilities of China in general to be superior to that of other suppliers. Its workforce is better educated than the Ghana workforce. Corporate social responsibility is becoming an important issue for this buyer but the company was not in a position to comment on the performance of the suppliers.

Figure 3.5. Buyer's views on physical infrastructure and human capital

Importance scale (1=not important; 5=critical)
Performance scale (1=poor; 5=excellent)



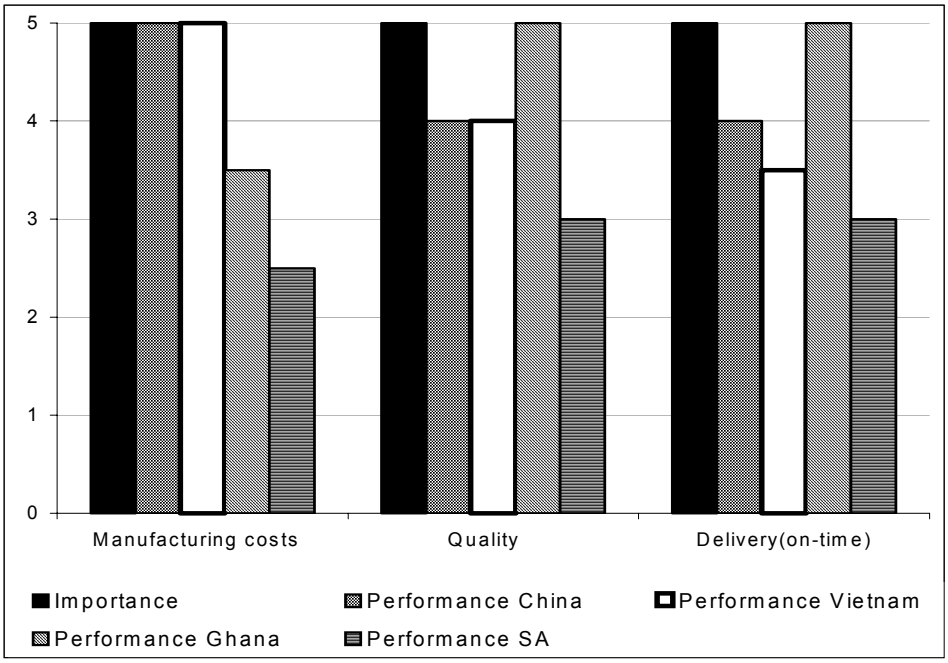
Source: Company interview

The buyer was also asked to consider operational factors (Figures 3.6 and 3.7). Cost, quality and on-time delivery are critical order winners. Products from Ghana performed better than other suppliers in delivery and quality factors while Asian products performed better on price. Chinese firms appear to be more ambitious however. The MD observed that:

> *"On more than one occasion, our Chinese suppliers have offered an improvement on one of our designs and did not charge me for it. Other suppliers would probably not be able to make this change. And if they could, they would send me a bill".*

Figure 3.6: Evaluation of operational factors, cost, quality, and delivery

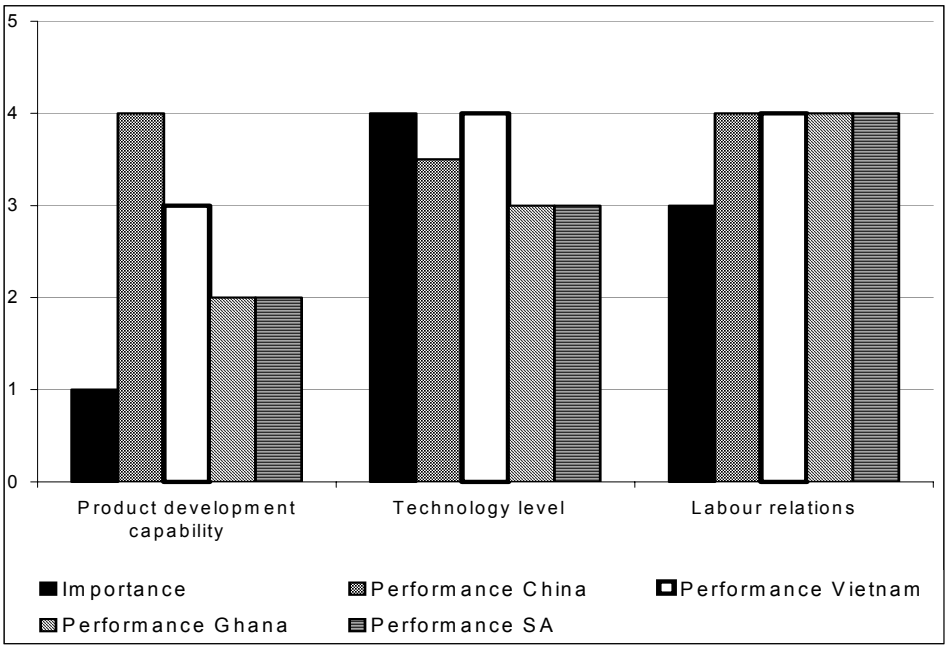
Importance scale (1=not important; 5=critical)
Performance scale (1=poor; 5=excellent)



Source: Company interview

Figure 3.7. Evaluation of operation factors, technology and labour

Importance scale (1=not important; 5=critical)
Performance scale (1=poor; 5=excellent)



Source: Company interview

What is happening on the ground in Ghana?

Unfortunately there appears to be no structured analysis of the Ghanaian furniture value chain in general, or the garden furniture and exporting segments in particular. (The Furniture Manufacturing Association of Ghana has unsuccessfully tried to produce a census of the industry in recent years). A single firm is responsible for most furniture exports, and this comprises a mix of garden furniture to the EU (via its UK buyer – see above) and parquet flooring to Italy. It is estimated that informal-sector producers account for at least two-thirds of the local market (interviews with key informants).

A number of factors define and dominate the Ghanaian furniture industry. The first arises from the global demand for certified hardwoods. The Ghanaian government has taken extensive steps to ensure that all of its hardwood timber supplies are of certified origin. There is no clear estimate of how successful this has been, and the extent of illegal logging. Second, complementing this policy on certification has been a ban on the export of unsawn logs. In order to preserve the local industry, the local saw mills are required to allocate at least 20 percent of their output to the local market. However, as in the case of South Africa (Kaplinsky, Morris and Readman, 2001), most of this timber is for the building industry, and furniture manufacturers have both to struggle for supplies and, more importantly, are unable to get the wood cuts in sizes or qualities which are suitable for furniture manufacture, particularly for the quality of furniture required to compete in external markets. Furniture manufacturers in Ghana therefore often resort to the use of illegal timber, roughly and inefficiently chain-sawn (with high wastage) in rural areas. None of this is helpful in achieving high quality products.

A third problem confronting the local industry is the absence of complementary inputs, particularly aluminium and other metal fittings, but also soft furnishings (although these latter products are often acquired independently by external buyers). This is a growing problem as garden furniture becomes more innovative in design and wood is only part of a more complex product. A further problem inhibiting competitive production, particularly in export markets, is the short time-horizon and high cost of capital (more than 20 percent p.a), and the fluctuating exchange rate which make exports a hazardous business.

Almost all of the manufacturers we interviewed saw China as a problem. The major exporter described conditions in its external markets as being very tough. In the late 1990s China first entered global markets with poor quality products and suffered from an adverse reputation. However, subsequently Chinese producers began to use better woods, including hardwoods imported from West Africa, and have now become a very substantial threat, leading in a drop in its unit export prices. But manufactures targeting the local market also complained about Asian competition in general, and Chinese competition in particular. Some reported attempts to raise the matter with government in 2001, but to no avail; government's over-riding concern has been with certification and the ban on exports of raw logs, and the furniture industry has had little lobbying power. In the face of these pressures, manufacturing firms reported either that they had given up all hope of exporting, or that they saw the emerging ECOWAS market as their primary target. We are unable to judge the realism of this response of targeting regional markets and none of our respondents seem to have considered this issue very thoroughly. It may, therefore, be a matter of clutching at straws. A

number of furniture firms had either reduced their labour forces, or expected to do so in the near future.

Ghana's furniture industry is not in a robust state of health.

What is happening on the ground in South Africa?

Nor is the South African wood furniture industry in a robust state of health. The recent NPI Customised Sector Programme (NPI, 2005) shows a "furniture industry" dominated by the export of leather automobile seats. After achieving steady growth between 1963 and 2003 (73 percent in real terms), real output began to decline after 2002. This reflected both a fall in exports (wooden furniture exports declined from R892m in 2003 to R629m in 2004) and an increase in imports. The share of imports in domestic consumption rose from four percent in 1995 to 21 percent in 2002. Employment in the furniture industry remained fairly stable after reaching its peak in 1989 (43,000), but with the sharp fall in exports after 2002, fell back to 38,000 in 2004. Profitability is low and many firms are on the edge of shedding labour. (All data in this paragraph from NPI, 2005).

The NPI study ascribed these systemic weaknesses to a combination of poor manufacturing processes (with high inventories and outdated equipment), poor design and R&D capabilities, high wages and the absence of government support. These corroborate the conclusions of Kaplinsky, Morris and Readman (2001), who also point to weaknesses in the whole chain, particularly in the links between furniture manufacturers, timber suppliers and the forestry sector. There are additional problems which arise from high levels of ownership concentration, not just in the furniture sector, but throughout the chain (Kaplinsky and Manning, 1999).

The NPI study concludes with a depressing message:

> *The future of the furniture industry may not immediately hang in the balance, but trends suggest that the SA furniture [industry] is moving in the direction of ruin" (NPI, 2005:18)*

Our interviews with two garden furniture exporters are illustrative of these general trends, and also point to the specific impact of China and other Asian competitors.

The first manufacturer specialises in garden furniture which account for 70 percent of total sales, selling both into the domestic market and into the continental EU market. But falling global prices and a rising domestic currency have made export sales very unattractive and exports as a share of sales have fallen from 40 percent of sales in 2000 to 10 percent in 2005. Sales fell in current Rand prices by one-third between 2003 and 2004. The major external competitors are Asian-based, with China and Indonesia being particularly active in global markets. There are plans to take over an ailing South African producer and to target future export growth by diversifying into indoor furniture and developing a brandname.

The second manufacturer uses saligna hardwood substitutes and produced both garden and indoor furniture. Sales rose between 2005 and 2004 (from $1.5m to $1.7m), but on the back of falling profitability. In 2003 the labour force was

halved, and mechanisation and improved manufacturing processes have seen a sharp rise in productivity. Export prices have not risen in relation to either costs or domestic prices, and the share of exports has fallen from 50 percent in 2000 to 30 percent in 2005. Two factors are reported as undermining competitiveness in external markets. The first is the appreciating exchange rate, and the second is competition from Vietnam and China. As the operations manager observed,

> *Down the road from us there is a large saligna forest and sawmill. This facility is FSC certified and we buy from them. Lately they have been selling timber to Vietnam. It's expensive to send timber by ship. The Vietnamese manufacturers use Australian designs and turn out good quality - and cheap – products. Well, furniture made from South African trees, produced in Vietnam, can be bought in Cape Town and Durban. And this will be cheaper than anything we can make.*

3.4. WHITHER THE SSA FURNITURE SECTOR

The evidence presented above on the SSA industry makes for blunt reading. Most of the continent's furniture industry is inward-oriented and involves the informal sector using low-grade timber and timber offcuts (often involving wasteful chainsawn timber) to produce basic products for middle- and low-income domestic consumers. In some cases, particularly in West Africa, this involves the illegal use of uncertified timber, leading to a depletion of scarce global hardwood supplies, and contributing to global warming.

The increasingly scarce hardwood timber in which West Africa has a comparative advantage, and the hardwood substitute (saligna) in which South Africa has a comparative advantage is being exported on a growing scale to Asia in general, and China in particular. Partly on the back of timber sourced from other countries, China has become a growing presence in global furniture markets, and SSA firms are unable to compete effectively with them. It is not just China which threatens SSA's furniture industry in global markets, but other Asian economies such as Indonesia, Vietnam and Thailand. And it is not just SSA which is threatened in this way, since Thai rubberwood furniture manufacturers (who pioneered the use of rubberwood for furniture) are being squeezed out of Japanese markets by Chinese competitors using rubberwood imported from Thailand and Malaysia (Mitsuhashi, 2006).

As a consequence of this Asia-based competition, furniture exports from SSA have therefore come to be threatened by a combination of falling prices, reduced profitability and falling and evaporating market shares. To be blunt, SSA's export-oriented furniture industry is at a crisis point, if that crisis-point has not already been reached. But it is not just the export-market which has been threatened. The liberalisation of imports into SSA has meant growing domestic competition from low-cost Chinese and Asian sourced furniture. This, too, threatens the survival of the formal sector furniture-manufacturing sector throughout SSA.

The threat to the furniture industry has not had an adverse effect on all of the wood furniture *value chain*, since many SSA economies have seen largely stable and even growing exports of timber, logs and chips and pulp for the paper industry. For example, in 2004, South Africa's exports of all forestry-related

products had grown to $1.3bn, from $794m in 2000; almost all of this was pulp and chips for the paper industry, in which it is a major player, and wood furniture exports were less than $50m. Similarly, in 2004, Ghana exported $105m of sawn timber, compared to $77m in 2000, and less than $9m of wood furniture.[18]

This pilot study of the furniture sector has been hampered by the absence of systematic and detailed data on these sectors. Even the relatively-sophisticated South African dataset is based on highly aggregated figures, and provides little insights into the underlying processes which determine systemic inefficiency. We know that this inefficiency is not confined to individual segments in the wood and furniture value chain, but also arises from poor levels of coordination between segments in the chain as a whole (Kaplinsky, Morris and Readman, 2001 for South Africa). As a consequence we are not only unsure which policy levers to tap, but also what the impacts are of this systemic weakness on economic growth, on growth multipliers, on the agricultural sector, on employment, and on poverty and urban and rural livelihoods.

3.5. POLICY

During the late 1980s and early 1990s there was a lively debate in South African industrial policy on the necessity of "beneficiating" raw materials (Joffee et al, 1995). This mirrored the debate in the development literature on the nature of dependency in the developing world (for example, Girvan, 1987). On the one hand, it was argued that a primary route for industrialisation in low income economies was to take advantage of resource-endowments and to become processors of these raw materials. Thus, for example, the existence of a natural advantage in forestry (tropical trees grow more rapidly and more dense in a shorter period of time than they do in temperate climates), meant that developing countries should develop a comparative advantage in industries which use timber, such as furniture. The policy implication of this was that local raw material processors should get privileged access to these inputs. On the other hand, the counter-argument was that the post-war industrialising economies in Asia (Japan and then the Asian Tigers) had performed well despite (and perhaps because of) having no access to these raw materials. They imported these from the lowest-cost producers and added value to them very efficiently. There was no reason why local processors should be favoured, and they should be forced to source their inputs at the landed cost of imports. Market prices should prevail.

Clearly, the systemic weaknesses of SSA furniture manufactures means that they are unable to add value to their timber as efficiently as their Chinese and other Asian competitors. This leaves two sets of related policy-issues to be confronted. The first is whether SSA's furniture industry is in some sense disabled by comparison with its competitors by factors exogenous to the enterprise. This may be due to poor infrastructure, to high interest rates, to fluctuating and uncompetitive exchange rates or to system-wide underinvestment in public goods such as basic education. These are policies which are of general relevance, targeting market failures which affect all industry and are not to be met via sectorally targeted industrial development.

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[18] With the exception of the estimate for Ghana's wood furniture exports (derived from interviews with key industry informants), all figures are drawn from FAOSTAT website, accessed 9th January 2006

The second set of policy issues relates to the specific needs of the furniture sector. This involves targeted measures to promote its efficiency such as furniture-training programmes, the promotion furniture-design skills, firm-level furniture upgrading initiatives, subsidised access to finance and the facilitation of value chain coordination and efficiency. For these policies to be justified it would need to be shown that the furniture industry is either specifically disabled by comparison with other sectors, or that it holds a place of strategic importance in overall industrial development. These strategic issues were considered above.

There is one final set of policy conclusions which can be derived from the experience of SSA's clothing and textile sector and analysed in Part 2 above. This is that the only factor sustaining the labour- and export-oriented clothing sector was the availability of trade preferences in external markets. These trade preferences were designed to provide significant support to SSA industry, with implicit effective rates of subsidy of between 28 and 84 percent. These effective rates of subsidy were much higher than the nominal preference rates since SSA clothing exporters can access duty-free imported inputs and obtain tariff protection on the nominal cif cost of imported products rather than on their value added. This arises from a special derogation to the AGOA provisions, which is not only specific to that sector, but holds less potential in a wood furniture industry utilising domestic inputs.

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ANNEX 1

PREDICTIONS OF POST 2005 TEXTILE AND APPAREL SECTORS.

Various predictions were made on the outcomes of quota removal on the 1st of January 2005. These can be grouped into four categories – those relating to the impact of poverty, those relating to the impact on the structure of the global industry, those relating to the impact on Asia, and those affecting AGOA economies.

1. Projected impact on poverty

One of the major concerns arising from the elimination of quotas on textile and apparel in 2005 was the impact on the workers and poverty. Table A1 focuses on key countries, to show the number of people who might be under threat from the post quota competition

Figure A1: Expected Impact of Elimination of Quotas post 2005 on Selected Countries.

	Prospects for the garment industry	**Prospects for garment workers and communities**	**Dependence on garment industry ***
Bangladesh	**Severely challenged** – Export decline and job losses expected, although should remain a significant garment exporter.	**Very Vulnerable** Few other job opportunities for women workers.	**Dependent** 1,800,000 workers, 40% jobs 62% exports
Mexico	**Severely challenged** in the immediate future. NAFTA and proximity to US remain big advantages.	**Poor –** but some other industrial job opportunities exist.	**Declining but still significant** 750,000 workers 18% of jobs 6% exports
Cambodia	**Unclear –** differences of opinion over future competitiveness.	**Extremely Vulnerable** Few other job opportunities for women workers.	**Dependent** 250,000 workers 62% of jobs 82 % of exports
Lesotho	**Unclear** – Lesotho has been AGOA success story, but vulnerable to competition after 2005.	**Extremely vulnerable** Very poor country with no other industrial employers	**Dependent** 45,000 workers 90 + % of jobs 90 + % of exports

* % of jobs in this column indicates % of industrial employment, % of exports indicates % of manufactured exports, most recently quoted figures.
Source: Business for Social Responsibility (2005)

. Shaded boxes indicate those countries with most cause for concern in each area.

2. Projected impact on global trade in textile and apparel:

The key points merging from the literature surveyed in Table Figure A2 below are as follows:

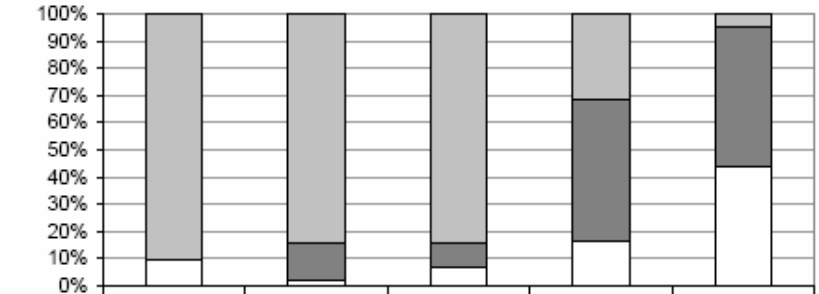
- The main beneficiaries after the quota removal would be countries which had previously been subject to high quota restraints, such as China and India.
- With increased competitiveness the prices in the sectors will be driven down. Consequently, retailers will move to low cost suppliers, and high labour cost countries will lose employment.
- Lead times and proximity to markets will play as differentiating factors in choice of suppliers for retailers and provide scope in some product markets for flexible producers close to final markets
- New investments in countries which previously enjoyed preferential access, will tail-off.
- The negative impact is likely to be highest for countries with a larger dependence on those categories of textiles and apparel which were previously quota constrained and protected.
- After 2005, China will become the dominant textile and apparel exporter, while Indonesia, Vietnam, India and Mexico will become the second tier suppliers at the global level.[19]
- It is unclear whether the preference margin given to preferential agreement countries, will be large enough to offset the price advantage which other Asian countries have, once the quotas are removed[20].
- "Analysts predict countries that fully utilize their quotas in the years preceding 2005 will increase their exports after that date. However those countries not fully utilizing their quotas will unlikely benefit and many will lose market share from quota elimination as they face intense competition, which they have not experienced before."[21]
- Results of general equilibrium models run are given below:
- At a regional level, producers in NAFTA, SSA and the Caribbean Basin Initiative grouping are most likely to be adversely affected, and those in Asia and China most positively affected by quota removal (Figure A.2).

[19] The Global Apparel Value Chain: What prospects for Upgrading by Developing Countries
[20] Eckart Naumann; (2005) Textiles and clothing: reflections on the sectors integration into the post quota environment.
[21] Pg: 27 USAID (2005) Impact and end of MFA quotas on comesa's textile and apparel exports under AGOA.

Figure A2: Summary of literature on projected global impact of quota removal

Author / Year	Publication	Prediction
G.Gereffi and O. Memedovic (2003) UNIDO	The Global Apparel Value Chain: What prospects for Upgrading by Developing Countries	The main beneficiaries after the quota removal would be countries which had previously been subject to high quota restraints, such as China and India. With increased competitiveness the prices in the sectors will be driven down. Consequently, retailers will move to low cost suppliers, and high labour cost countries will lose employment. Lead times and proximity to markets will play as differentiating factors in choice of suppliers for retailers and provide scope in some product markets for flexible producers close to final markets New investments in countries which previously enjoyed preferential access, will tail-off. The negative impact is likely to be highest for countries with a larger dependence on those categories of textiles and apparel which were previously quota constrained and protected. After 2005, China will become the dominant textile and apparel exporter, while Indonesia, Vietnam, India and Mexico will become the second tier suppliers at the global level.
Eckart Naumann; (2005) Tralac working paper no1/2005	Textiles and clothing: reflections on the sectors integration into the post quota environment	It is unclear whether the preference margin given to preferential agreement countries, will be large enough to offset the price advantage which other Asian countries have, once the quotas are removed
USAID (7: 2005) Manchester Trade Team	Impact and end of MFA quotas on comesa's textile and apparel exports under AGOA	"Analysts predict countries that fully utilize their quotas in the years preceding 2005 will increase their exports after that date. However those countries not fully utilizing their quotas will unlikely benefit and many will lose market share from quota elimination as they face intense competition, which they have not experienced before."

Predictions of US apparel imports 2002-2005, by source and risk level (US$ mn. and percent)



	NAFTA	SSA	CBI	ASIA	CHINA
High	8,461	802	12,768	7,662	304
Medium	47	129	1,311	12,768	3,189
Low	876	21	1,049	3,997	2,749

Source: Nathan Associates (2002), based on US Dept. of Commerce

Naumann E. (2005), Textiles and clothing: Reflections on the sector's integration into the post-quota environment, TRALAC Working Paper No 1/2005.

Figure A3: Characteristics of selected analytical studies relating to the ATC

Year	Authors	Database	Model Characteristics	Policy Simulation	General Results
2001	Francois and Spinanger	GTAP 4 (base year 1995) quota prices for Hong Kong for 1998/99	Standard Static GTAP model and parameters	Quota removal plus Uruguay Round trade liberalization in the context of China's WTO accession. (Focus. Hong Kong)	Textile and clothing exports from Asia (especially South Asia) increase substantially. Preferential access to the USA and EU will be reduced and there would be a shift in demand away from countries like Mexico and Turkey. SSA's exports will also drop.
2001	Terra	GTAP 4 (base year 1995)	Standard Static GTAP model and parameters	1)quota removal and 2)quota removal plus tariff reductions (focus: Latin America)	Developing countries subject to the biggest quantitative restrictions would expand their exports at the expense of importing developed countries, but also of other developing countries which are less restricted(i.e. Latin America) MERCOSUR and Chile would reduce their exports of clothing significantly, and their exports textiles moderately. Effects would be stronger in 2) rather than in 1).
2001	Avisse and Fouquin	GTAP 4 (base Year 1995)	Standard Static GTAP model and parameters	Quota Removal	Output share of Asia increases from 12 % to 18%. China's exports would increase by 87%, South and South East Asia's would increase by 36%. Latin America and NAFTA would loose 39% and 27% respectively.
2001	Diao and Somwaru	GTAP 5 (Base year 1997) 25 year Base line	Counterfactual analysis using an inter-temporal version of GTAP	MFA phase out simulated by improving the efficiency of textile and apparel exports from constrained countries. Other trade barriers on textile and apparel imports are reduced by 30 to 40% in all countries. They econometrically estimate that a percent increase in apparel trade shares is associated with a 3.3 percent increase in per capita income	The annual growth of world textile and apparel trade would be more than 5% higher. Market share of developing countries as a whole would increase by 4 percentage points following the ATC. China would gain almost 3 percentage points of the world textile and apparel market, while other Asian countries would capture more than 2%. Non-quota developing countries are predicted to lose about 20% of their markets (equal to 2.3 percentage points of world total textile and apparel markets) to the restrained ones.
2002	Matoo, Roy and Subramanian	Data collected by authors	Partial equilibrium. ETE's derived from Kathuria and Bharadwaj (2000) Leontief production. Export elasticities from 1 to 5	Interaction between the ATC and the AGOA rules of origin for Mauritius and Madagascar	Under the current AGOA system, the apparel exports of Mauritius and Madagascar would be about 26% and 19% lower respectively following 2005. If AGOA's rules of origin requirement is eliminated, the decline in Mauritius's exports would be only 18% and Madagascar exports could increase.
2002	Lankes	GTAP 5 (base year 1997)	Standard Static GTAP model and parameters	Quota removal	Total export revenue loss attributed to the MFA quotas estimated to be $22 billion for developing countries and $33 billion for the world as a whole.

Source: USITC Publication 3671 (2004)

3. Predicted impact on China

China (and India) will dominate the post quota world, with China's share alone estimated at 50 percent[22]

- China will double its exports of clothing and textile, achieving 50% of the global trade (Lanchovichina and Martin, 2001; Spinanger, 2003)
- The expansion of Chinese exports will be hampered by the uncertainty regarding imposition of safety measures, when exports surge in 2005.
- US importers plan to diversify into other low cost producers other than China, however China will become the 'supplier of choice' for most[23].
- Hong Kong will move its major processing to mainland China, to take advantage of the cheap and productive labour. However their extreme reliance on Chinese labour could make them vulnerable as both labour and land costs are rising in China[24].
- China will receive significant growth towards the end of the decade, but only a modest increase in apparel production in the short term after quota removals.[25]
- China might implement a minimum export price below which products cannot be shipped in a number of categories including those exported from the COMESA region. This would serve as an inducement for Chinese exporters to move into higher-niche exports leaving more basic apparel open to African exporters.[26]

[22] Hildegunn Kyvik Nordas (2004) The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing.
[23] USITC (2004) Publication no. 3671
[24] The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries?
[25] Managing the Transition to a Responsible Global Textiles and Garment Industry (2004)
[26] Pg: 3USAID (2005) Impact and end of MFA quotas on comesa's textile and apparel exports under AGOA.

Figure A4: Summary of literature on projected global impact of quota removal on China

Author /Year	Publication	Prediction
Hildegunn Kyvik Nordas (2004) Discussion paper No. 5. WTO : Geneva	The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing	China (and India) will dominate the post quota world, with China's share alone estimated at 50 percent WTO estimate that India share would grow from 4-15%, China from 16-50% and SSA share decline by 70%
Lanchovichina and Martin, (2001) *World Economy*, 24:9	Implications of China's accession to the WTO for China and the WTO	China will double its exports of clothing and textile, achieving 50% of the global trade
USITC (2004)	Publication no. 3671	The expansion of Chinese exports will be hampered by the uncertainty regarding imposition of safety measures, when exports surge in 2005 US importers plan to diversify into other low cost producers other than China, however China will become the 'supplier of choice' for most
G.Gereffi and O. Memedovic (2003) UNIDO	The Global Apparel Value Chain: What prospects for Upgrading by Developing Countries	Hong Kong will move its major processing to mainland China, to take advantage of the cheap and productive labour. However their extreme reliance on Chinese labour could make them vulnerable as both labour and land costs are rising in China
2005 Business for Social Responsibility; The World Bank / Institute of Social and Ethical Accountability (accountability),	Managing the Transition to a Responsible Global Textiles and Garment Industry	China will receive significant growth towards the end of the decade, but only a modest increase in apparel production in the short term after quota removals
USAID (2005) Manchester Trade Team	Impact and end of MFA quotas on COMESA'S textile and apparel exports under AGOA	China might implement a minimum export price below which products cannot be shipped in a number of categories including those exported from the COMESA region. This would serve as an inducement for Chinese exporters to move into higher-niche exports leaving more basic apparel open to African exporters

4. Predictions for SSA and AGOA eligible countries

- AGOA will provide real opportunities to Africa. Even on conservative estimates about Africa's supply response, Africa's non-oil exports could be increase by about 8-11 percent. If the stringent rules of origin did not exist, AGOA would have multiplied the effect five fold, resulting in an overall increase in non-oil exports to US $ 0.54 billion compared with the US $ 100-140 million increase that is expected in the presence of these restrictions[27].
- Africa's apparel export will fall by over 30 percent with the dismantling of the MFA[28].
- Competition from China in third world markets is less of a challenge to the countries of the regions than to those of South and South-east Asia which have specialized in exporting labour intensive manufacturers, particularly textiles and garments. The major exception to this is Lesotho, which over the last few years developed a significant garment industry which is threatened by the ending of the MFA. India is much les of a competitive threat in third world markets as compared to China.[29]
- It seems highly unlikely that there has been a significant diversion of FDI from Africa to China or Asia.[30]
- The ITC concluded that before the MFA expired, US retailers were increasing their purchasing under AGOA since they did not have to pay duties on their imports. However, without quotas on non-SSA suppliers, the absence of duties likely would not retain the Sub Sahara's competitive advantage except in cases where import duties are high. (man-made fibre)
- COMESA suppliers will have to compete against increased amounts of competitively priced apparel available from countries formally limited by quantitative restrictions. Unrestrained suppliers will be freed from paperwork, AGOA suppliers will not.
- It is unclear whether the tariff remission on AGOA countries will be large enough to offset the price advantage that the Asian producers can carry. [31]
- South Africa will lose share in the US apparel exports, despite the AGOA preferences.
- The East African Standard has estimated that in Kenya, 25,000 employees working in 37 textile manufacturing firms might lose their jobs during the first post MFA year.[32]
- With the phasing out of third country fibre allowance of AGOA by the end of 2007, countries will have to look inwards for fabric. The ITC report cites a company estimate that the cost of standard cotton cloth

[27] Aditya Mattoo, Devesh Roy and Arvind Subramanian (2002) The African Growth and Opportunity Act and its Rules of Origin; Generosity Undermined?
[28] Aditya Mattoo, Devesh Roy and Arvind Subramanian (2002) The African Growth and Opportunity Act and its Rules of Origin; Generosity Undermined?
[29] Jenkins and Edward (2005) The Effect of China and India's growth and trade liberalization on Poverty in Africa.
[30] Jenkins and Edward (2005) The Effect of China and India's growth and trade liberalization on Poverty in Africa.
[31] Eckart Naumann; (2005) Textiles and clothing: reflections on the sectors integration into the post quota environment.
[32] Pg: 3USAID (2005) Impact and end of MFA quotas on comesa's textile and apparel exports under AGOA.

imported from China imported into Lesotho was $ 0.58 per square yard, compared to $ 1.57 for identical fabric produced in South Africa

Figure A5: Summary of literature on projected global impact of quota removal on SSA

Author /Year	Publication	Prediction
Aditya Mattoo, Devesh Roy and Arvind Subramanian (2002) The World Bank; Development Research Group Trade *Policy Research Working Paper No. 2908*	The African Growth and Opportunity Act and its Rules of Origin; Generosity Undermined?	Africa's apparel export will fall by over 30 percent with the dismantling of the MFA. However the negative impact could be nearly fully offset if the stringent rules of origin did not exist, AGOA would have multiplied the effect five fold, resulting in an overall increase in non-oil exports to US $ 0.54 billion compared with the US $ 100-140 million increase that is expected in the presence of these restrictions
Jenkins and Edward (2005) DFID	The Effect of China and India's growth and trade liberalization on Poverty in Africa	Competition from China in third world markets is less of a challenge to the countries of the regions than to those of South and South-east Asia which have specialized in exporting labour intensive manufacturers, particularly textiles and garments. The major exception to this is Lesotho, which over the last few years developed a significant garment industry which is threatened by the ending of the MFA. India is much les of a competitive threat in third world markets as compared to China It seems highly unlikely that there has been a significant diversion of FDI from Africa to China or Asia
Eckart Naumann; (2005) Tralac working paper no1/2005	Textiles and clothing: reflections on the sectors integration into the post quota environment	The ITC concluded that before the MFA expired, US retailers were increasing their purchasing under AGOA since they did not have to pay duties on their imports. However, without quotas on non-SSA suppliers, the absence of duties likely would not retain the Sub Sahara's competitive advantage except in cases where import duties are high. (man-made fibre) COMESA suppliers will have to compete against increased amounts of competitively priced apparel available from countries formally limited by quantitative restrictions. Unrestrained suppliers will be freed from paperwork, AGOA suppliers will not. It is unclear whether the tariff remission on AGOA countries will be large enough to offset the price advantage that the Asian producers can carry
USAID (3: 2005)	Impact and end of MFA quotas on	South Africa will lose share in the US apparel exports, despite the AGOA preferences
Manchester Trade Team	COMESA'S textile and apparel exports under AGOA	The East African Standard has estimated that in Kenya, 25,000 employees working in 37 textile manufacturing firms might lose their jobs during the first post MFA year

ANNEX 2; AGOA EXPORT PERFORMANCE COMPARED TO INDIA AND A CLUSTER OF ASIAN COMPETITORS (CAMBODIA, VIETNAM, HONG KONG, MALAYSIA, INDONESIA, TAIWAN, KOREA)

Notes on Tables in Annex 2.

- Data has been collected from the USITC website using 10 digit HTS item codes - http://dataweb.usitc.gov data, accessed on 11th February 2006

- The **Total** value in $ terms, shows the value of all exports of garments to the US, from the selected countries, and only in the case of South Africa, does it contain values of textiles and garments.

- The **top 5 products** shown, and the **average for the top 10 products** are based on the top 10 products by $ value in 2004, for the selected countries.
- **Market shares** are calculated for each product, according to the total value of exports to the US in that particular product.

- All **comparisons** with China, India and East Asia are done for products in the same category as exported by the selected case studies.

- The **weighted average** shows the percentage change in the average value, average price and average market share.

AGOA versus China; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	AGOA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		AGOA market share (%)			China market share (%)	
		AGOA	China	AGOA	China	2001	2004	2005	2004	2005
Total	1,460,600,000	-17	58			1.6	3	2	16	23
1	162,100,000	-21.4	215.3	-6.5	-57.5	4.34	5.4	4.0	1.8	5.5
2	113,600,000	-22.7	82.5	-10.2	-67.7	3.61	6.7	4.7	2.3	3.8
3	116,700,000	-18.1	231.3	4.7	-53.5	2.27	6.1	4.5	4.3	13.0
4	98,200,000	17.3	138.2	-8.5	-45.1	2.97	5.2	5.5	1.7	3.5
5	74,400,000	-1.2	442.0	-3.4	-34.1	3.53	4.2	3.6	1.5	7.1
Avg Top 10*	76,400,000	-14.7	161.1	-0.9	-45.9	3.4	5.3	4.3	3.3	8.0

*weighted average

AGOA versus India; Top 5 AGOA clothing exports to US, 2005 versus 2004

Item	AGOA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		AGOA market share (%)			India market share (%)	
		AGOA	India	AGOA	India	2001	2004	2005	2004	2005
Total	1,460,600,000	-17	36			1.6	3	2	3	4
1	162,100,000	-21.4	79.6	-6.5	-20.7	4.34	5.4	4.0	1.6	2.8
2	113,600,000	-22.7	22.8	-10.2	-23.1	3.61	6.7	4.7	5.0	5.6
3	116,700,000	-18.1	78.2	4.7	-20.7	2.27	6.1	4.5	2.3	3.7
4	98,200,000	17.3	171.4	-8.5	-37.6	2.97	5.2	5.5	0.2	0.4
5	74,400,000	-1.2	134.2	-3.4	3.1	3.53	4.2	3.6	0.2	0.3

AGOA versus E Asia; Top 5 AGOA clothing exports to US, 2005 versus 2004 (Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	AGOA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		AGOA market share (%)			E Asia market share (%)	
		AGOA	E Asia	AGOA	E Asia	2001	2004	2005	2004	2005
Total	1,460,600,000	-17	-3			1.6	3	2	21	19
1	162,100,000	-21.4	44.9	-6.5	-2.3	4.34	5.4	4.0	20.6	28.2
2	113,600,000	-22.7	31.7	-10.2	-12.7	3.61	6.7	4.7	12.5	15.1
3	116,700,000	-18.1	10.1	4.7	-7.3	2.27	6.1	4.5	30.0	30.2
4	98,200,000	17.3	9.0	-8.5	-3.8	2.97	5.2	5.5	7.4	7.2
5	74,400,000	-1.2	49.8	-3.4	3.6	3.53	4.2	3.6	17.6	22.5

Item	Description
1	Women's or girls' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
2	Men's or boys' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
3	Women's trousers and breeches, of cotton, not knitted, other
4	Men's trousers and breeches, not knitted, of cotton, blue denim
5	Women's trousers and breeches, of cotton, not knitted, blue denim

Lesotho versus China; Top 5 Lesotho clothing exports to US, 2005 versus 2004

Item	Lesotho exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Lesotho market share (%)			China market share (%)	
		Lesotho	China	Lesotho	China	2001	2004	2005	2004	2005
Total	390,600,000	-14	112			0.53	1.0	0.8	8	16
1	59,300,000	-9.3	215.3	-9.2	-57.5	1.42	1.7	1.5	1.8	5.5
2	43,900,000	-16.7	82.5	-12.8	-67.7	0.95	2.4	1.8	2.3	3.8
3	39,300,000	36.1	138.2	-8.5	-45.1	1.58	1.8	2.2	1.7	3.5
4	30,800,000	34.0	534.7	-4.6	-52.8	2.76	6.9	8.2	0.7	4.0
5	12,000,000	-41.0	442.0	-9.9	-34.1	1.39	1.1	0.6	1.5	7.1
Avg Top 10*	24,500,000	-7.4	151.6	-3.2	-46.2	1.2	1.8	1.5	3.2	7.7

*weighted average

Lesotho versus India; Top 5 Lesotho clothing exports to US, 2005 versus 2004

Item	Lesotho Exports 2005 ($)	Value change (%)		Unit price change (%)		Lesotho market share (%)			India market share (%)	
		Lesotho	India	Lesotho	India	2001	2004	2005	2004	2005
Total	390,600,000	-14	39			0.53	1.0	0.8	4	5
1	59,300,000	-9.3	79.6	-9.2	-20.7	1.42	1.7	1.5	1.6	2.8
2	43,900,000	-16.7	22.8	-12.8	-23.1	0.95	2.4	1.8	5.0	5.6
3	39,300,000	36.1	171.4	-8.5	-37.6	1.58	1.8	2.2	0.2	0.4
4	30,800,000	34.0	26.9	-4.6	-26.7	2.76	6.9	8.2	0.3	0.4
5	12,000,000	-41.0	134.2	-9.9	3.1	1.39	1.1	0.6	0.2	0.3

Lesotho versus E Asia; Top 5 Lesotho clothing exports to US, 2005 versus 2004 (Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	Lesotho exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Lesotho market share (%)			E Asia market share (%)	
		Lesotho	E Asia	Lesotho	E Asia	2001	2004	2005	2004	2005
Total	390,600,000	-14	0.2			0.53	1.0	0.8	23	22
1	59,300,000	-9.3	44.9	-9.2	-2.3	1.42	1.7	1.5	20.6	28.2
2	43,900,000	-16.7	31.7	-12.8	-12.7	0.95	2.4	1.8	12.5	15.1
3	39,300,000	36.1	9.0	-8.5	-3.8	1.58	1.8	2.2	7.4	7.2
4	30,800,000	34.0	6.4	-4.6	-12.1	2.76	6.9	8.2	7.9	7.4
5	12,000,000	-41.0	49.8	-9.9	3.6	1.39	1.1	0.6	17.6	22.5

item	Description
1	Women's or girls' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
2	Men's or boys' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
3	Men's trousers and breeches, not knitted, of cotton, blue denim
4	Boys' trousers and breeches, not knitted, of cotton, not imported as parts of playsuits, blue denim
5	Women's trousers and breeches, of cotton, not knitted, blue denim

Swaziland versus China; Top 5 Swaziland clothing exports to US, 2005 versus 2004

Item	Swaziland exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Swaziland market share (%)			China market share (%)	
		Swaziland	China	Swaziland	China	2001	2004	2005	2004	2005
Total	160,800,000	- 10	91			0.12	0.4	0.3	9	17
1	16,900,000	-46.3	215.3	-5.5	-57.5	0.49	0.8	0.4	1.8	5.5
2	13,700,000	10.9	231.3	-2.5	-53.5	0.03	0.5	0.5	4.3	13.0
3	10,600,000	8.8	48.3	-13.7	-36.0	0.00	1.1	1.2	8.4	12.7
4	13,200,000	52.5	57.7	15.1	-31.6	0.11	0.5	0.9	9.6	16.9
5	11,300,000	58.4	97.4	0.2	-41.5	0.02	1.0	1.7	3.5	7.3
Avg Top 10*	8,900,000	-5.8	127.6	-2.7	-51.9	0.2	0.7	0.6	3.6	7.8

*weighted average

Swaziland versus India; Top 5 Swaziland clothing exports to US, 2005 versus 2004

Item	Swazi exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Swazi market share (%)			India market share (%)	
		Swazi	India	Swazi	India	2001	2004	2005	2004	2005
Total	160,800,000	- 10	42			0.12	0.4	0.3	4	5
1	16,900,000	-46.3	79.6	-5.5	-20.7	0.49	0.8	0.4	1.6	2.8
2	13,700,000	10.9	78.2	-2.5	-20.7	0.03	0.5	0.5	2.3	3.7
3	10,600,000	8.8	3.8	-13.7	32.5	0.00	1.1	1.2	0.7	0.8
4	13,200,000	52.5	1.4	15.1	36.3	0.11	0.5	0.9	0.8	0.9
5	11,300,000	58.4	-67.0	0.2	-0.6	0.02	1.0	1.7	2.8	1.0

Swaziland versus E Asia; Top 5 Swaziland clothing exports to US, 2005 versus 2004
(Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	Swazi exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Swazi market share (%)			E Asia market share (%)	
		Swazi	E Asia	Swazi	E Asia	2001	2004	2005	2004	2005
Total	160,800,000	- 10	2			0.12	0.4	0.3	22	21
1	16,900,000	-46.3	44.9	-5.5	-2.3	0.49	0.8	0.4	20.6	28.2
2	13,700,000	10.9	10.1	-2.5	-7.3	0.03	0.5	0.5	30.0	30.2
3	10,600,000	8.8	-9.8	-13.7	-2.9	0.00	1.1	1.2	30.9	28.5
4	13,200,000	52.5	-18.6	15.1	5.9	0.11	0.5	0.9	49.6	44.9
5	11,300,000	58.4	-31.3	0.2	0.6	0.02	1.0	1.7	28.6	21.0

Item	Description
1	Women's or girls' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
2	Women's trousers and breeches, of cotton, not knitted, other
3	Women's trousers and breeches, of synthetic fibers, not knitted
4	Women's or girls' other pullovers, and similar articles, of man-made fibers, knitted or crocheted, containing less than 30 percent by weight of silk
5	Men's or boys' other pullovers, and similar articles, of man-made fibers, knitted or crocheted, containing less than 30 percent by weight of silk

Kenya versus China; Top 5 Kenya clothing exports to US, 2005 versus 2004

Item	Kenya exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Kenya market share (%)			China market share (%)	
		Kenya	China	Kenya	China	2001	2004	2005	2004	2005
Total	270,300,000	- 2.5	77			0.14	0.54	0.49	12	19
1	60,500,000	8.3	231.3	15.7	-53.5	0.35	2.4	2.4	4.3	13.0
2	33,400,000	24.8	442.0	2.9	-34.1	1.07	1.5	1.6	1.5	7.1
3	12,700,000	-46.2	114.8	-6.6	-38.6	0.19	1.5	0.8	3.5	7.7
4	5,700,000	-64.9	548.7	1.1	-40.0	0.94	2.3	0.8	2.3	14.7
5	9,800,000	-20.6	1123.4	-12.4	-48.8	1.10	4.4	3.5	1.1	14.2
Avg Top 10*	15,900,000	-9.3	269.6	-1.9	-44.8	0.5	1.5	1.3	2.5	8.8

*weighted average

Kenya versus India; Top 5 Kenya clothing exports to US, 2005 versus 2004

Item	Kenya exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Kenya market share (%)			India market share (%)	
		Kenya	India	Kenya	India	2001	2004	2005	2004	2005
Total	270,300,000	- 2.5	38			0.14	0.54	0.49	4	5
1	60,500,000	8.3	78.2	15.7	-20.7	0.35	2.4	2.4	2.3	3.7
2	33,400,000	24.8	134.2	2.9	3.1	1.07	1.5	1.6	0.2	0.3
3	12,700,000	-46.2	74.6	-6.6	-22.4	0.19	1.5	0.8	2.1	3.8
4	5,700,000	-64.9	27.8	1.1	-13.3	0.94	2.3	0.8	4.8	6.0
5	9,800,000	-20.6	157.6	-12.4	-26.2	1.10	4.4	3.5	1.3	3.4

Kenya versus E Asia; Top 5 Kenya clothing exports to US, 2005 versus 2004 (Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	Kenya exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Kenya market share (%)			E Asia market share (%)	
		Kenya	E Asia	Kenya	E Asia	2001	2004	2005	2004	2005
Total	270,300,000	- 2.5	-1			0.14	0.54	0.49	23	22
1	60,500,000	8.3	10.1	15.7	-7.3	0.35	2.4	2.4	30.0	30.2
2	33,400,000	24.8	49.8	2.9	3.6	1.07	1.5	1.6	17.6	22.5
3	12,700,000	-46.2	-0.6	-6.6	-6.3	0.19	1.5	0.8	15.0	15.1
4	5,700,000	-64.9	-9.5	1.1	-10.9	0.94	2.3	0.8	20.8	18.5
5	9,800,000	-20.6	15.9	-12.4	-21.7	1.10	4.4	3.5	21.8	25.5

item	Description
1	Women's trousers and breeches, of cotton, not knitted, other
2	Women's trousers and breeches, of cotton, not knitted, blue denim
3	Men's trousers and breeches, not knitted, of cotton, other
4	Men's shorts, not knitted, of cotton
5	Girls' trousers and breeches, of cotton, not knitted, other, other

SA versus China; Top 5 SA clothing and textile exports to US, 2005 versus 2004

Item	S Africa exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		S Africa market share (%)			China market share (%)	
		SA	China	SA	China	2001	2004	2005	2004	2005
Total	92,400,000	- 45	65			0.37	0.25	0.13	13	21
1	22,100,000	0.1	82.5	-7.3	-67.7	1.3	1.0	0.9	2.3	3.8
2	6,000,000	-70.3	138.2	-14.1	-45.1	0.3	1.3	0.3	1.7	3.5
3	2,900,000	-66.9	215.3	13.1	-57.5	1.2	0.2	0.1	1.8	5.5
4	1,000,000	-86.8	114.8	9.5	-38.6	0.4	0.5	0.1	3.5	7.7
5	2,100,000	-73.2	48.3	8.7	-36.0	0.1	0.9	0.2	8.4	12.7
Avg Top 10*	4,800,000	-50.3	166.2	3.0	-33.0	0.7	0.7	0.3	3.0	7.5

*weighted average

SA versus India; Top 5 SA clothing and textile exports to US, 2005 versus 2004

Item	SA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		SA market share (%)			India market share (%)	
		SA	India	SA	India	2001	2004	2005	2004	2005
Total	92,400,000	- 45	36			0.37	0.25	0.13	3	4
1	22,100,000	0.1	22.8	-7.3	-23.1	1.3	1.0	0.9	5.0	5.6
2	6,000,000	-70.3	171.4	-14.1	-37.6	0.3	1.3	0.3	0.2	0.4
3	2,900,000	-66.9	79.6	13.1	-20.7	1.2	0.2	0.1	1.6	2.8
4	1,000,000	-86.8	74.6	9.5	-22.4	0.4	0.5	0.1	2.1	3.8
5	2,100,000	-73.2	3.8	8.7	32.5	0.1	0.9	0.2	0.7	0.8

SA versus E Asia; Top 5 SA clothing and textile exports to US, 2005 versus 2004 (Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	SA exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		SA market share (%)			E Asia market share (%)	
		SA	E Asia	SA	E Asia	2001	2004	2005	2004	2005
Total	92,400,000	- 45	-2			0.37	0.25	0.13	21	20
1	22,100,000	0.1	31.7	-7.3	-12.7	1.3	1.0	0.9	12.5	15.1
2	6,000,000	-70.3	9.0	-14.1	-3.8	0.3	1.3	0.3	7.4	7.2
3	2,900,000	-66.9	44.9	13.1	-2.3	1.2	0.2	0.1	20.6	28.2
4	1,000,000	-86.8	-0.6	9.5	-6.3	0.4	0.5	0.1	15.0	15.1
5	2,100,000	-73.2	-9.8	8.7	-2.9	0.1	0.9	0.2	30.9	28.5

item	Description
1	Men's or boys' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
2	Men's trousers and breeches, not knitted, of cotton, blue denim
3	Women's or girls' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
4	Women's trousers and breeches, of synthetic fibers, not knitted
5	Men's trousers and breeches, not knitted, of cotton, other

Madagascar versus China; Top 5 Madagascar clothing exports to US, 2005 versus 2004

Item	Madagascar exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Madagascar market share (%)			China market share (%)	
		Madagascar	China	Madagascar	China	2001	2004	2005	2004	2005
Total	276,900,000	- 14	76			0.36	0.57	0.46	13	21
1	33,000,000	-24.6	231.3	-3.1	-53.5	0.34	1.9	1.3	4.3	13.0
2	31,200,000	-13.1	82.5	-8.9	-67.7	0.69	1.6	1.3	2.3	3.8
3	28,300,000	-8.0	215.3	1.7	-57.5	0.64	0.8	0.7	1.8	5.5
4	22,400,000	51.4	138.2	-2.0	-45.1	0.39	0.9	1.2	1.7	3.5
5	7,400,000	-45.9	548.7	-0.1	-40.0	0.79	2.0	1.1	2.3	14.7
Avg Top 10*	15,300,000	-16.4	226.8	-9.5	-44.0	0.5	1.4	1.0	2.9	8.8

*weighted average

Madagascar versus India; Top 5 Madagascar clothing exports to US, 2005 versus 2004

Item	Madagascar exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Madagascar market share (%)			India market share (%)	
		Madagascar	India	Madagascar	India	2001	2004	2005	2004	2005
Total	276,900,000	- 14	37			0.36	0.57	0.46	4	5
1	33,000,000	-24.6	78.2	-3.1	-20.7	0.34	1.9	1.3	2.3	3.7
2	31,200,000	-13.1	22.8	-8.9	-23.1	0.69	1.6	1.3	5.0	5.6
3	28,300,000	-8.0	79.6	1.7	-20.7	0.64	0.8	0.7	1.6	2.8
4	22,400,000	51.4	171.4	-2.0	-37.6	0.39	0.9	1.2	0.2	0.4
5	7,400,000	-45.9	27.8	-0.1	-13.3	0.79	2.0	1.1	4.8	6.0

Madagascar versus E Asia; Top 5 Madagascar clothing exports to US, 2005 versus 2004
(Cambodia, Vietnam, Hong Kong, Malaysia, Indonesia, Taiwan, Korea)

Item	Madagascar exports 2005 ($)	Value change (%) 05/04		Unit price change (%) 05/04		Madagascar market share (%)			E Asia market share (%)	
		Madagascar	E Asia	Madagascar	E Asia	2001	2004	2005	2004	2005
Total	276,900,000	- 14	-3			0.36	0.57	0.46	22	20
1	33,000,000	-24.6	10.1	-3.1	-7.3	0.34	1.9	1.3	30.0	30.2
2	31,200,000	-13.1	31.7	-8.9	-12.7	0.69	1.6	1.3	12.5	15.1
3	28,300,000	-8.0	44.9	1.7	-2.3	0.64	0.8	0.7	20.6	28.2
4	22,400,000	51.4	9.0	-2.0	-3.8	0.39	0.9	1.2	7.4	7.2
5	7,400,000	-45.9	-9.5	-0.1	-10.9	0.79	2.0	1.1	20.8	18.5

item	Description
1	Women's trousers and breeches, of cotton, not knitted, other
2	Men's or boys' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
3	Women's or girls' other pullovers, and similar garments, of cotton, knitted or crocheted, containing less than 36 percent by weight of flax fibers
4	Men's trousers and breeches, not knitted, of cotton, blue denim
5	Men's shorts, not knitted, of cotton